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OUTLOOK & SITUATION

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International Economics Division
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U.S. Department of Agriculture

Note: Tons are metric, dollars are U.S., and rice is on a milled basis unless specified otherwise.

The International Economics Division's program of agricultural situation and outlook analysis and reporting includes the following regularly scheduled publications: The *World Agricultural Outlook and Situation* published three times annually; regional reports on Asia, Africa, China, Eastern Europe, the Middle East, the Soviet Union, Western Europe, and the Western Hemisphere published annually; the *Foreign Agricultural Trade of the United States* published bimonthly; the *Food Aid Needs and Availabilities Report* published semiannually; and the *Outlook for U.S. Agricultural Exports* published quarterly. Information on obtaining these publications is enclosed in the back of this report.

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Summary

Economic Recovery May Benefit Commodity Prices

The worldwide economic recovery, still expected to begin this year, should ease unemployment, increase overall consumption, and boost demand for U.S. agricultural products. Declining inflation and lower interest rates in the industrialized nations will help launch the turnaround. However, recovery in the developing and centrally planned nations will have to wait for renewed demand for their exports. As interest rates fall and the world's economies accelerate, the attractiveness of already low U.S. commodity prices may increase.

OPEC oil production will likely continue above world consumption rates, maintaining downward pressure on prices. Only a strong economic recovery or effective production cuts could push prices higher.

Declining inflation and relatively lower interest rates in the United States have further strengthened the dollar in foreign exchange markets. The higher value of the U.S. currency will likely continue unless economic recovery in foreign industrial nations outpaces that in the United States.

World crop prices continue to decline, pushed down by large supplies and the depressed global economy. With domestic production expected to surpass last year's exceptional performance and foreign use to be relatively flat, U.S. grain stocks are projected to double those of 2 years ago. U.S. agricultural exports are forecast at $40.5 billion in Fiscal 1982, 8 percent below a year earlier, despite record volume projected at 165 million tons. Volume in 1983 is expected to exceed 170 million tons, but the price outlook is uncertain.

Global food grain supplies are anticipated to be about the same as last year. Consumption of wheat and rice should about equal production, leaving ending stocks at around last year's levels. Production of both grains will be down from a year earlier. Prospects for a larger Soviet outturn of coarse grains and a record U.S. crop indicate record world production, while use may increase only 2 percent. Most of the increase will be in the United States, where stocks may exceed the 1961 record. Corn prices will be low because of huge U.S. supplies and a weak recovery in livestock industries.

World oilseed production may reach a record 185.1 million tons, led by 13-percent advances in soybean and sunflowerseed. Increased supplies will continue to depress prices and encourage more crushings. A persistent oversupply of vegetable oil will likely limit real price rises through the 1980's.

Milk production continues to rise, prompting government programs to reduce surplus stocks in the European Community (EC) and the United States. Global sugar production for 1981/82 is now estimated at 97.9 million metric tons, while consumption is placed at only 91 million. Output in 1982/83 could fall 2 to 3 million tons, but will likely exceed consumption, keeping prices for most of 1983 at 1978 lows.

World cotton production is forecast at 66.6 million bales in 1982/83, compared with last year's record 71.3 million. The U.S. share of cotton trade may hold close to last year's 33 percent. Global tobacco production in 1982 is forecast at 5.68 million tons, farm weight, little changed from 1981's 5.56 million. Tobacco use and trade are expanding moderately and should continue to do so in 1983.

World Agricultural Situation

WORLD ECONOMIC CONDITIONS

The continued decline in inflation rates and the recent break in U.S. and foreign interest rates have improved the outlook for a strengthening world economy in late 1982 and 1983. Now that inflation in the major industrialized nations—the United States, Canada, Japan, and the EC—has dropped fairly steadily over the 12 months ending in July, financial policies in some countries may become less restrictive. According to money analysts, interest rates may fall even further before increasing after the recovery gets underway.

Recovery in the developing and centrally planned nations will have to wait for a breakthrough in the industrial economies. Because prices for their exports are so low, the developing countries as a group need a surge in export volume. However, this surge will not come without stronger demand from industrialized markets. A fourth poor harvest will cut output in the Soviet Union, and export earnings will suffer from low prices, particularly for oil and gold. Elsewhere among the centrally planned countries, credit restrictions and low export growth will keep overall growth rates low.

Weak World Economy Limits U.S. Exports

Weak conditions in the world economy are still restricting demand for U.S. agricultural exports. High unemployment rates are restraining consumption, especially of meats. Interest rates are still high and, in the face of slack demand, are keeping foreign inventories of soybeans, cotton, and other commodities low. The strong U.S. dollar is keeping foreign prices of U.S. exports higher than they would be otherwise.

The worldwide recovery, still expected to begin later this year, should boost demand for U.S. commodity exports. A gradual, although delayed, easing of worldwide unemployment will increase overall consumption. Lower interest rates will reduce the cost of financing

inventories and encourage holdings if overall demand picks up. As interest rates fall and the economies accelerate, the dollar is likely to weaken slightly, which may increase the attractiveness of already low U.S. commodity prices.

The Industrialized Economies

The anticipated summertime recovery of the major industrialized countries shows no conclusive signs of being launched. Total output, industrial production, retail sales, investment, and exports continue to be stable at best and are sometimes negative. Surveys taken in June in several countries showed that business decisionmakers are pessimistic about the prospect of increased business activity through the end of the year. This pessimism, however, was largely based on the high interest rates that prevailed at the time the surveys were made.

Inflation Rates Decline

Declining inflation and interest rates have brightened prospects for economic recovery. Inflation in the industrialized nations, at about 8 percent for the year ending in June, was 1 full percentage point below the year ending in January and almost 4 points lower than in 1980. Through the second quarter of 1982, the inflation rate for the industrialized nations as a group steadily declined from its 1980 peak. Many analysts attribute this easing of inflation to restrictive monetary policies in most nations. Most significantly, governmental policies seem to be indirectly cutting back the increases in wages, a large component of inflation.

Since mid-1980, inflation has moderated the most in countries where wage increases have decelerated. Wage increases slowed more in Britain from mid-1980 to early 1982 than in any other country. As a result, Britain's inflation rate was cut almost in half by the end of the period. Similar cuts in inflation can be found in the United States, Japan, Germany, and Italy. Only in France and Canada have wage gains remained about constant. As a result, inflation has worsened in France and eased only slightly in Canada.

Policies To Slow Inflation

In its summer forecast, the International Monetary Fund (IMF) forecast that inflation in the industrialized countries would settle at 8.1 percent in 1982 and would decline to 7 percent in 1983. This and other low-inflation forecasts assume that financial policies will remain restrictive by historical standards, although several governments intend to ease policies somewhat through 1983. Continued low wage gains, low commodity prices, and cyclical increases in productivity will also help reduce inflation rates.

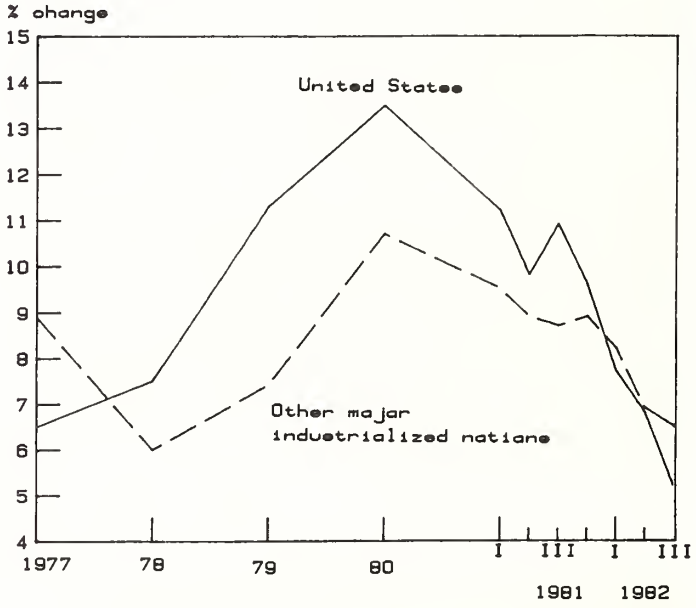
Interest Rates Drop

Interest rates, especially those in the United States, dropped considerably from June through early September. For the major industrialized nations, including the United States, average short-term interest rates fell almost 2 points from June to 9 percent in early September. Interest rates for U.S. Treasury bills dropped about 4 points from the second quarter of 1982 to early September. Most short-term U.S. interest rates are as low as they were in 1979, and many analysts predict that, through the end of 1982, they will remain lower than earlier forecasts.

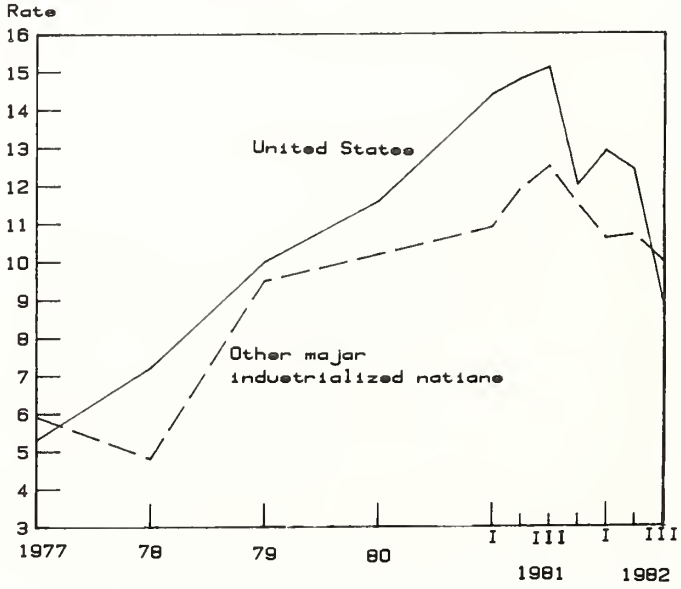
Led by declining U.S. rates, interest rates in most of the industrialized nations in early September continued to fall from higher levels in the second quarter of the year. The lower rates will certainly ease financial pressures and, if they stay relatively low, may help fuel a stronger recovery than earlier expected.

Lower interest rates will help generate faster growth in production and in consumption. For businesses, lower interest rates will help ease the costs of financing inventories and purchases of new equipment and installations. Expenditures on new investments are not likely to be high in 1982, but reduced interest rates will help keep investments from declining further, as they did in several industrialized countries during 1981 and through the first quarter of 1982. Consumers are expected to

Inflation in Consumer Prices



Interest Rates



increase spending for automobiles and other durable goods if interest rates for those items come down even more and stay down for a while. Increased production of these goods will help lead to a general recovery.

Foreign Interest Rates May Fall Further

So far, foreign interest rates have not fallen as much as U.S. rates, although several factors suggest that foreign rates are likely to come down further. First, overseas interest rates may decline more now that foreign currencies have stabilized against the dollar. Because U.S. interest rates provided high yields on U.S. investments, overseas investors sold their foreign assets and currency, purchased dollars, and bought U.S. assets. These transactions depressed foreign currency values while boosting the value of the dollar. To keep their financial assets attractive to investors, foreign financiers and central bankers raised interest rates. Now that foreign currencies are somewhat stable, however, overseas interest rates could come down further.

Second, growth in the money supplies of the United Kingdom, Germany, and Canada is within or below target ranges. Because credit demand in these countries is expected to stay low, interest rates are likely to ease.

Low Growth Still Projected

Although the lower interest rates may generate a stronger recovery than earlier expected, it will still be weak from an historical perspective. The average growth forecast for the major industrialized nations is 0.6 percent for 1982 and 3.5 percent for 1983, when most of the recovery is likely to occur. In contrast, growth following the 1975/76 recession averaged 5.2 percent.

The IMF projects that growth of consumption and investment will be below average in the major industrialized nations this year. It predicts no growth for consumption in the United States, Germany, and the United Kingdom, and it shows a decline for gross fixed investment in all major nations, except Japan and the United Kingdom.

Because of low growth or a decline in consumption and investment, as well as slowing increases expected in governmental spending and exports, production in the industrialized countries will probably remain low throughout 1982. Except in Japan, France, and the United Kingdom, production in each of the first 6 months of 1982 was lower than a year earlier. Even for these three exceptions, growth in production has been negligible or negative in some months this year.

The Developing Countries

Export Prices, Earnings Fall

For the developing countries, the most telling indication of economic weakness is the slowing growth in exports. Low commodity prices and slowing trade volumes explain declining export revenues in four of the five quarters from first-quarter 1981 to first-quarter 1982. Furthermore, for many countries, the continued deterioration in their currencies has only worsened their economic situation.

For the developing countries as a group, first-quarter 1982 exports declined 14 percent in value from a year earlier. Earnings dropped an average of 4 percent each quarter except for the fourth quarter of 1981, when they rose 7 percent. The largest decline, 22 percent, was registered by the petroleum-exporting countries, while revenues of the non-oil group fell 7 percent. These depressed figures for export revenues largely reflect falling demand in the industrialized nations, where developing countries sell the bulk of their exports. A resumption of growth in export revenues will be meager until import demand picks up in the industrialized markets.

From the second quarter of 1981 to the same period in 1982, prices decreased for cocoa, cotton, groundnuts, hides, sugar, copper, iron ore, phosphate, and tin. Falling prices were coming at a time when export volumes were slowing, further reducing the growth or, in many cases, the absolute level of export receipts.

In normal times, a country's depreciating currency would boost its export sales, because the goods would be less expensive in the importing nation's currency. Demand around the world is so sluggish, however, that export sales are still weak. At the same time, the country whose currency is weakening can import less because its money has less purchasing power.

Currency depreciations are further burdening countries by increasing the amount of money needed to service their international debt. For example, in mid-August, when the Mexican Government made public its need to reschedule portions of the country's national debt, unofficial sources estimated that Mexico was obligated to repay about $20 billion within the following 12 months. This debt equaled 529 billion pesos at the January exchange-rate, but rose by mid-August to 982 billion. For firms that must exchange pesos to buy dollars to repay an international debt, the peso's depreciation has clearly upped the cost. [Art Morey (202) 447-8470]

INPUTS AND FINANCE

Energy

Oil Market Blues

Although the world price of crude oil improved slightly since it hit its lowest point last June, after an 18-month downhill slide, and excess stocks in the West were reduced to a more manageable level, the price increase may be only temporary. The serious oil glut may reappear, because the summer jump in gasoline demand has proved weaker than normal, OPEC members are circumventing production ceilings, and earlier hopes of a notable rise in economic activity and oil demand in industrialized countries have dimmed.

OPEC oil ministers met in Vienna during July 9-11 to discuss new production quotas to prevent further undermining of the official price of $34 a barrel for crude. They adjourned without reaching any agreement. Iran acrimoniously denounced Saudi Arabia over production cuts. Needing cash to finance its war with Iraq, Iran has produced 2.2 million barrels of oil a day, well above its assigned 1.2 million, and has cut its prices. Libya, Nigeria, and Venezuela are also producing above their quotas and selling below the official price by offering discounts. On the other hand, Saudi Arabia reduced production from 8.5 million barrels a day in January to 5.5 million in July, but refused to cut it more or to change the price. However, to maintain their present market position, the Saudis finally threatened to lower their price as well.

Prices May Fall Again

The average price for crude rose marginally from $33.05 a barrel in June to $33.11 in July, and it remained at that level through September. However, the spot market indicates that it may fall again. In the meantime, production dropped from 56.3 million barrels a day in 1981 to 50 million last July. But, the war between Iran and Iraq continues, necessitating increased production in both countries. Other producers, both in and outside OPEC, are also badly strapped for cash and can hardly afford production cuts. Thus, oil supplies are expected to continue above present needs, and the downward pressure on prices will persist for a while. Only a strong economic recovery in the developed world could spur demand and change the outlook. [Francis Urban (202) 447-8106]

Exchange Rates

Dollar Strong Despite Interest-Rate Drop

The summer has seen an impressive increase in the foreign exchange value of the U.S. dollar, resulting in a 5-year high relative to the Japanese yen and a 1-year high vis-a-vis the German mark. Although the rise was primarily fueled by the continued high interest rates payable on dollar deposits (which enhance its speculative appeal), more fundamental factors have become evident in the sustained demand for U.S. currency.

Providing the foundation for the dollar's current strength, interest rates payable both domestically and overseas have remained relatively attractive. When combined with the low rate of U.S. inflation and even lower foreign interest rates, the "real" return available from dollars has encouraged their acquisition. In addition, any decline in U.S. interest rates is strongly expected to lead to corresponding reductions in other countries, maintaining the dollar's relative advantage.

Early August yielded clear evidence that interest rates are not necessarily the major determinant for foreign exchange traders. Despite sharply falling interest rates on dollar deposits and narrowing differentials with respect to other currencies, the U.S. dollar continued its appreciation. In fact, not even this year's largest and most concerted intervention from major central banks could stem the surge.

Simply put, those fundamental factors that in the end contribute to the stability of the U.S. economy encourage the development of a dollar that is correspondingly stable. Most noteworthy have been the recent and sustained dampening of inflation and signs of increased productivity growth for the U.S. economy as a whole. Flows of capital have been heavy into U.S. financial markets from foreign sources.

Considering the possibility of instability in the rest of the world, the United States is, for foreign exchange, the safest and most easily available haven. Continued unrest in Poland casts a cloud over Europe, especially West Germany. The OPEC countries face massive external account deficits. Canada and Western Europe (particularly France and Italy) face difficult periods of economic adjustment. The Japanese economy is beginning to show signs of stagnation. Given such a picture, the still-evident dynamism, relative stability, and size of the U.S. economy should continue to fuel the demand for dollars worldwide. [David Stallings (202) 447-8054]

Foreign currency units per U.S. dollar

Year	Mark	Yen	Pound	Guilder	C. Dollar
1979	1.833	219.2	.4713	2.006	1.171
1980	1.818	226.4	.4299	1.987	1.169
1981	2.258	220.3	.4984	2.493	1.199
1982					
Jan.	2.293	224.7	.5300	2.513	1.192
Feb.	2.365	235.1	.5410	2.593	1.214
Mar.	2.379	241.1	.5536	2.617	1.220.
Apr.	2.395	243.9	.5638	2.658	1.225
May	2.312	237.0	.5521	2.568	1.233
June	2.427	251.2	.5685	2.680	1.275
July	2.464	255.0	.5760	2.719	1.268
Aug.	2.477	258.7	.5791	2.723	1.244

Agricultural Commodity Prices

World agricultural prices continue to sink for most commodities, and little, if any, price strength is expected in the near future. Prices of commodities like grains and oilseeds, exported largely by developed countries, as well as tropical commodities exported by developing countries, are down from a year ago. For many products, prices are the lowest in 3 years. The forces behind the low prices are huge supplies and global economic stagnation.

Total U.S. grain production grew by nearly one-fourth in 1981/82, while foreign production increased only slightly. At the same time, global consumption of grain increased less than 1 percent, leaving U.S. ending stocks about 60 percent higher than in 1980/81. With domestic production expected to surpass last year's exceptional performance and foreign use to be relatively flat, U.S. grain stocks in 1982/83 are forecast at double those 2 years earlier. Again, the downward trend in world prices should continue in the coming year.

U.S. Farm Prices Spiral Downward

Farm prices for wheat, corn, and soybeans are forecast to fall for the second consecutive year. With supply outstripping demand, yearly average farm prices for wheat and corn in 1982/83 will likely be below those in 1979/80, and the lowest for soybeans since 1975/76.

In 1981/82, U.S. farm prices for wheat held steady most of the season, but began to fall in the spring, after early indications of a large winter wheat crop. By June, not only was the winter crop growing under ideal conditions, but spring wheat looked excellent. During the summer, prices fell to below $125 a ton, a 3-year low, and they will likely average under the $130-a-ton loan rate through harvest. The season-average farm price is forecast at $127 to $134 for 1982/83, compared with last year's $134.

Feed grain prices are much lower than earlier forecasts because of a larger-than-expected domestic crop and reduced global trade. However, relatively tight free stocks in the spring strengthened prices slightly. The situation eased somewhat in late July, when the rotation period for corn and sorghum in the farmer-owned reserve was extended to 60 days before harvest, making corn and sorghum immediately available to market channels in regions that harvest early. Also, during the summer, U.S. corn exports dropped to half the level reached in spring. In fact, by mid-August, farm prices for corn, barley, and sorghum were below the loan rate. Even though

International commodity prices

Year	Wheat				Corn		Soybeans	Soyoil		Soymeal 44%	
	U.S. No. 2[1]	Argentina[2]	Canada No. 1[3]	Australia[4]	U.S. No. 2 yellow[5]	Argentina[2]	U.S. No. 2 yellow[5]	Decatur	Dutch[6]	Decatur	Hamburg[6]
	Dollars per metric ton										
1975	149	147	181	167	122	126	210	559	563	141	162
1976	134	128	149	147	115	114	223	414	438	179	203
1977	105	100	116	113	98	93	271	524	579	212	240
1978	131	126	134	119	105	102	259	565	607	189	226
1979	162	159	171	142	118	117	278	610	662	160	254
1980	176	203	192	175	129	159	272	522	598	217	271
1981	176	190	194	175	135	139	272	464	507	223	269
1981											
Jan.	191	212	221	189	155	169	299	494	545	242	304
Feb.	184	211	213	185	145	153	204	475	516	233	286
Mar.	176	210	202	179	144	142	284	507	535	229	284
Apr.	181	194	198	180	146	136	297	511	531	244	294
May	175	189	197	174	143	137	291	466	511	244	284
June	170	180	189	168	139	132	273	469	512	221	265
July	170	177	186	168	141	138	281	500	529	226	260
Aug.	172	179	182	167	133	136	266	452	506	221	252
Sept.	173	179	182	170	122	129	258	420	485	209	257
Oct.	170	182	182	169	117	134	248	426	486	199	248
Nov.	180	184	190	186	119	139	243	436	470	198	243
Dec.	174	176	182	170	110	121	241	411	455	208	247
1982											
Jan.	175	177	181	167	109	120	247	408	455	212	250
Feb.	173	180	172	165	115	114	244	404	454	194	247
Mar.	170	179	160	158	116	110	240	407	452	204	242
Apr.	171	179	162	158	120	112	250	430	483	210	250
May	168	176	168	158	120	112	254	453	510	212	248
June	152	164	157	158	110	108	241	427	472	203	231
July	152	160	163	160	113	119	241	420	463	199	223
Aug.	154	163	160	NA	106	116	226	393	430	186	216

[1]Hard winter ordinary protein, f.o.b. Gulf ports. [2]F.o.b. Buenos Aires. [3]Western red spring 13.5% protein, in store Thunder Bay. [4]July-June crop year, standard white, f.o.b. selling price. [5]F.o.b. Gulf ports. [6]F.o.b. ex-mill.

exports are expected to be up, global ending stocks will likely increase about one-fifth, keeping 1982/83 feed grain prices below this year.

Early forecasts of 1981/82 oilseed production were understated both here and abroad. Despite record U.S. exports of soybeans, the large crop pushed farm prices below USDA's first forecast. By early summer, domestic prices were 10 to 15 percent below a year earlier. By midsummer, it was evident that the United States was facing yet another record crop. Price prospects deteriorated further, indicating low prices again in 1982/83, despite projected record U.S. trade in soybeans.

World Export Prices Follow U.S. Drops

Despite record world trade in wheat and oilseeds, export prices continued lower throughout the summer. Global economic stagnation, particularly affecting the livestock industry, hurt import demand for coarse grains and lowered prices. High interest rates had a significant impact on stockholding policies, forcing exporters, especially those in the United States, to keep higher stocks.

Wheat export prices in the United States, Canada, Argentina, and Australia slumped to between $150 and $165 a ton by July, a small range by historical standards, indicating a competitive marketplace. These prices are the lowest in several years. Similarly, corn export prices in the United States and Argentina fell more than 15 percent from a year earlier. Prices in the oilseed sector have also dropped significantly. In Northern Europe, import prices for soybeans and products have paralleled the price declines here.

U.S. Import Prices Down

Unit values (prices paid at the point of origin) for all U.S. agricultural imports fell an average of 14 percent from October to June, reflecting large crops, stagnant economic conditions worldwide, and high interest rates. These factors are virtually the same ones that have affected U.S. exports. However, unlike U.S. agricultural exports, about 40 percent of our imports are subject to the decisions of international commodity organizations—particularly coffee, cocoa, sugar, and rubber. Only the International Coffee Organization (ICO) has been able to stabilize prices to any degree, while cocoa, sugar, and rubber prices continue to decline.

The import unit value for sugar rose with the imposition of U.S. quotas and higher duties and fees in May. This measure effectively reduced world demand and, in conjunction with the record 1981/82 crop, helped drive world prices down to 7 cents a pound. This compares with a U.S.-landed price of 22 cents a pound.

Low U.S. beef prices early in the year—particularly for utility cows—not only kept import prices low, but also held beef imports below year-earlier levels. However, with poor forage conditions in Australia, slaughter has been at a higher level than earlier expected, and total beef imports have risen sharply in recent months.

Some Import Price Recovery Expected

The outlook for fiscal 1983 calls for tightening supplies in the major import commodities. The 1982 sugar and

coffee crops are expected to be 10 and 15 percent, respectively, below last year, although sugar supplies will remain large relative to use. Some other factors that will influence prices are:

- The effectiveness of U.S. sugar import quotas.
- U.S. imports of Australian beef.
- Measures taken by the various commodity organizations to raise prices.
- The direction of U.S. interest rates.

Ocean Freight Rates Drop Further

A slowdown in shipping during the summer exacerbated an already oversupplied transport system. Additional ships were laid up, partly because of a general decline in global economic activity. The shipping rate for grain between U.S. Gulf ports and Rotterdam fell to under $6 a ton, a 4-year low and half that of a year ago. Rates from other exporters to major markets also declined. Unless demand increases dramatically to reduce excess capacity—an unlikely scenario at this point—freight rates will probably not increase in the near future. [Bradley Karmen (202) 447-8879 and Steven R. Milmoe (202) 447-8054]

U.S. AGRICULTURAL TRADE

Exports To Fall To $40.5 Billion

U.S. agricultural exports are forecast at $40.5 billion in fiscal 1982, 8 percent below a year earlier (see *Agricultural Exports*, August 1982). This would mark the first year-to-year decline in the value of farm exports since 1969, despite record volume of about 165 million tons. Another bumper harvest is putting additional downward pressure on export prices. Imports are also estimated lower, at $14.7 billion, resulting in a trade surplus of just under $26 billion, a drop of $800 million below last year's record.

Economic stagnation and exchange-rate adjustments have dominated the U.S. export picture for the past 18 months. The economic slowdown has gradually affected consumer demand, particularly for products such as meats. Interest rates, presently 2 to 3 percentage points above inflation rates in many developed countries, imply a real cost in borrowing, which has discouraged stockholding in the short term. Exporters, especially the United States, are thus holding relatively higher stocks.

Volume Growth To Continue

Nonetheless, the outlook for these economic indicators appears more favorable for 1983, which may help to stimulate demand for U.S. agricultural exports through the next fiscal year. A U.S.-led economic recovery is expected in late 1982, following the tax cut in July. Agricultural exports in the upcoming year will again reflect record volume and weak prices. Volume in fiscal 1983 is projected to exceed 170 million tons, hinging on a recovery in corn exports. Continued high export volumes of other major commodities, combined with domestic price-support, could mitigate price declines. However, the outlook for export prices is highly uncertain.

U.S. agricultural exports, fiscal years

Commodity	1979	1980	1981	1982[1]
		Billion dollars		
Grains and feed	13.4	18.5	21.9	18.7
Wheat	4.6	6.3	7.7	7.8
Wheat flour	.2	.2	.3	.3
Rice	.9	1.2	1.5	1.2
Feed grains	6.7	9.1	10.4	7.4
Oilseeds and products	8.7	10.0	9.4	9.7
Soybean cake and meal	1.4	1.6	1.6	1.5
Soybeans	5.4	6.2	6.0	6.4
Soybean oil	.7	.8	.5	.5
Livestock products	3.2	3.1	3.1	3.2
Dairy products	.1	.2	.3	.4
Poultry products	.4	.5	.8	.6
Cotton, including linters	1.9	3.0	2.2	2.1
Tobacco	1.3	1.4	1.3	1.6
Seeds	.2	.3	.3	.3
Fruits, vegetables, & nuts	2.1	2.7	3.1	3.0
Sugar and tropical products	.7	.8	1.4	.9
Total	32.0	40.5	43.8	40.5

[1]Forecast.

U.S. agricultural exports, fiscal years[1]

Commodity	1979	1980	1981	1982[2]
		Million metric tons		
Wheat	31.3	36.1	42.2	46.8
Wheat flour	.9	.9	.9	1.4
Feed grains	59.4	71.2	69.1	62.0
Rice	2.4	3.0	3.2	2.8
Other grain products	1.0	1.1	1.2	1.1
Feeds and fodders	4.3	6.2	5.8	5.6
Soybeans	20.2	23.8	20.0	25.0
Soybean meal	6.0	7.2	6.1	6.4
Other oilcake and meal	.3	.4	.5	.4
Soybean oil	1.1	1.2	.7	.9
Other vegetable oils	.5	.6	.8	.8
Sunflower seed	1.3	1.9	1.4	1.6
Cotton, including linters	1.4	2.0	1.3	1.5
Tobacco	.3	.3	.3	.3
Fruits, vegetables, & nuts	2.8	3.0	3.3	3.5
Beef, pork, & variety meats	.3	.3	.4	.4
Poultry meat	.2	.3	.4	.3
Animal fats	1.3	1.5	1.5	1.6
Other	2.4	2.9	3.5	2.4
Total	137.4	163.9	162.6	164.8

[1]Actual export tonnages. Excludes animal numbers and some commodities reported in cases, pieces, dozens, liquid measures, etc. [2]Forecast.

October-July Exports Down

During the first 10 months of fiscal 1982, the value of agricultural exports fell 9 percent to $34.2 billion. While volume was slightly higher, 137.6 million tons, prices for nearly all major commodities were lower than a year earlier. In addition to price declines, feed grain exports were off more than 9 million tons from last year's pace. Lower prices—both at the farm and export terminals—resulted from large U.S. and global supplies, stagnant economic performance worldwide, the increased real cost of borrowing money, and the stronger dollar. For example, at the end of January 1981, the Japanese could buy a bushel of U.S. corn at the Gulf for the equivalent of 725 yen. In June 1982, the cost in yen was unchanged, but the price of U.S. corn at the Gulf had fallen from $3.55 to $2.95 a bushel.

Commodity Outlook Mixed

As fiscal 1982 progressed, it became apparent that soybeans would be a major factor in the export picture. After a woeful year in 1981, soybean exports are projected to reach 25 million tons in fiscal 1982—a 25-percent gain over last year and 5 percent above the fiscal 1980 record. Fiscal 1983 exports may approach 26 million tons. Much of this increase can be attributed to the internal pricing policies of the EC, where soybean meal is currently less expensive than corn. The EC purchases over one-half of U.S. soybean and soybean meal exports.

Corn exports had moderate success in late spring and early summer, but they have since returned to a sluggish pace of 25 to 30 million bushels a week. In the 2 years before the slump that began in June 1981, corn exports averaged close to 45 million bushels a week. Although the most noted reason for the slow movement this summer has been the absence of Soviet purchases, Mexican imports are 3 million tons below a year ago. In addition, Japan, Poland, Romania, Brazil, and Italy have reduced their purchases of U.S. corn by more than half a million tons so far this year. Feed grain exports are expected to fall to 50 million tons in fiscal 1982, with a 10-percent increase projected for next year.

Wheat exports slowed only slightly prior to harvest time and are forecast up 12 percent to a record 48 million tons in fiscal 1982. Most of the increase is due to large shipments to the USSR and India. Exports to Egypt and Western Europe are also up. Wheat exports are expected to remain record-large in 1983. Canada will be pushing out its bumper 1982 harvest, while Australia could be strapped because it may harvest its worst wheat crop in 5 years this December.

Cotton Supplies Tighten

Price declines of more than $500 a ton made U.S. cotton more competitive this year, with export volume expected to increase 22 percent for the fiscal year. Low prices, combined with large export supplies, are expected to push U.S. cotton shipments to $2.1 billion. Exports are likely to be around this same level in fiscal 1983. [Stephen R. Milmoe (202) 447-8054]

WORLD COMMODITY DEVELOPMENTS

Food Grains

World supplies of food grains in 1982/83 are expected to be about the same as last year, as large beginning stocks for wheat and rice are offset by lower production of both grains. Foreign food grain production may be lower than in the past 2 years, but the U.S. output of wheat and rice combined is likely to fall less than 2 million tons this year. World consumption is expected to equal production in 1982/83, leaving ending stocks at last year's level. However, stocks will probably be up 10 percent from 1980/81. The U.S. share of world food grain ending stocks is likely to rise from the 27 percent of 1980/81 to 35 percent in 1982/83. World trade will likely be at last year's record for wheat and rice combined, because of poor crops in some key importing countries and depressed prices worldwide.

Wheat Production Declines

The oversupply expected in the world wheat market during 1982/83 has eased considerably. The earlier forecast of record world production is no longer expected, and, in fact, global output will probably decline following 2 years of gains. Ending stocks will therefore not build significantly, as consumption will be slightly below production. Nonetheless, the big increase in global stocks last year and a record U.S. crop expected this year have caused wheat prices to trend downward. They are expected to average below last year.

World wheat area has remained fairly constant the last 3 years, but foreign yields are currently below trend. Even so, production is higher in Europe, with the exception of Bulgaria. Record output in Canada and Mexico and large outturns in Brazil and Argentina round out the other major production increases in the world.

Two major declines in production this year are in the USSR and Australia. What may be the lowest harvested area in many years, combined with the lowest yield in 7 years, will make this the fourth consecutive poor harvest in the USSR. A drought in Australia, hitting primarily New South Wales, has reduced yield prospects to the lowest in 10 years. Other countries where production is expected to drop from last year include East Germany, Syria, and Iraq.

World trade in wheat and wheat flour (July/June, excluding intra-EC trade) is forecast at 101 million tons in 1982/83, the same as last year. The U.S. export forecast of 48.5 million tons is now slightly less than last season, because of an upward revision in 1981/82 figures to 49.1 million. Both the production and exports of Canada, the EC, and Argentina are expected to be higher than last year, but because of reduced Australian supplies, the total exports of our competitors will be about the same as last year. Among the major importers, the USSR is slated to take slightly less than last year. Egypt, Algeria, Chile, Iraq, and Bangladesh could increase their imports substantially. Imports by non-EC European countries, Mexico, and Brazil will likely be down from last year. Continued below-target stocks and an erratic monsoon have led India to purchase about 2.5 million tons of U.S. wheat so far this season, and additional purchases are possible.

Rice Output Down

World production of milled rice is forecast at 271 million tons in 1982/83, about 5 million less than last year's record. The 15-percent acreage reduction program and low rice prices caused an expected 1-million-ton decline in U.S. production. India accounts for the bulk of the expected decline in foreign rice output, because the southwest monsoon has been erratic and late. South Korea, Indonesia, and Thailand are suffering from drought and are likely to have reduced crops this year.

World rice consumption may stagnate in 1982/83, as use in India adjusts to lower production. World stocks will probably also decline. However, stocks in major exporting countries are expected to remain high. During 1981/82, stocks increased in the United States, Thailand, and Burma. Export prices for rice are expected to remain depressed this marketing year, after falling throughout the previous year.

World trade will likely remain depressed for the second year in a row—12 million tons, compared with 14 million in 1980/81. However, U.S. exports this year may reach

Wheat: World production, consumption, and net exports[1]

Region	1980/81			1981/82			1982/83[2]		
	Prod.	Cons.	Net exports	Prod.	Cons.	Net exports	Prod.	Cons.	Net exports
	Million metric tons								
Major exporters									
United States	64.6	21.1	41.9	76.0	23.2	49.0	76.6	22.3	48.4
Canada	19.2	5.2	17.0	24.5	5.0	17.7	26.0	5.1	19.0
Australia	10.9	3.6	10.6	16.4	3.8	11.0	9.3	4.0	8.0
EC-10	55.1	43.9	10.3	54.3	43.9	11.2	56.2	44.2	12.3
Argentina	7.8	4.0	3.9	7.8	4.0	4.3	9.7	4.2	5.0
Turkey	13.0	12.9	−.5	13.2	13.4	−.6	13.3	14.	0
Major importers									
USSR	98.2	116.7	−15.5	88.0	106.7	−18.7	79.0	96.5	−17.5
China	54.2	67.9	−13.8	58.5	71.7	−13.2	58.5	72.5	−14.0
East Europe	34.5	38.1	−3.5	30.5	35.5	−4.4	33.0	35.8	−3.0
Other W. Europe	9.7	8.8	−.3	6.4	8.7	−1.2	8.5	8.8	−.5
Brazil	2.7	6.6	−3.9	2.2	6.3	−4.5	2.4	6.2	−3.7
Mexico	2.7	3.5	−1.2	3.1	4.0	−1.0	4.1	4.2	−.3
Other Latin Am.	1.6	6.6	−5.7	1.4	6.5	−5.0	1.2	6.9	−5.5
Japan	.6	6.1	−4.7	.6	6.3	−5.4	.7	6.7	−5.5
India	31.8	34.3	0	36.5	36.5	−2.2	36.5	38.2	−3.8
South Korea	.1	2.1	−2.1	.1	2.1	−2.1	.1	2.2	−2.1
Indonesia	0	1.4	−1.5	0	1.4	−1.4	0	1.5	−1.5
Other Asia	15.2	21.3	−6.1	15.8	22.2	−6.5	16.0	23.1	−6.6
Egypt	1.8	7.5	−5.6	1.9	7.7	−6.1	2.0	8.0	−6.5
Morocco	1.8	3.4	−1.9	.9	3.3	−2.1	1.4	3.7	−2.0
Other N. Africa/ Mideast	11.3	20.8	−9.9	11.8	22.1	−10.5	10.9	23.1	−11.7
Other Africa	2.3	6.4	−3.7	3.1	6.7	−4.0	3.3	7.0	−3.9
Rest of world/residual	.1	2.4	−3.8	.3	4.9	−4.3	.3	6.4	−4.6
World total	439.2	444.6		453.3	445.9		449.0	444.6	

[1]Trade on July-June years. [2]Forecast.

Rice: World production, consumption, and net exports[1]

Region	1980/81			1981/82			1982/83[2]		
	Prod.	Cons.	Net exports	Prod.	Cons.	Net exports	Prod.	Cons.	Net exports
	Million metric tons milled								
Major exporters									
United States	4.8	2.1	3.0	6.1	2.2	2.9	5.2	2.4	2.8
Thailand	12.2	8.7	3.0	12.7	8.7	3.5	11.7	9.0	3.3
Pakistan	3.1	2.1	1.1	3.3	2.1	.9	3.1	2.2	1.1
China	94.7	94.2	.5	97.4	97.0	.4	98.6	98.1	.5
India	53.2	52.9	.9	54.0	54.5	.5	50.0	51.0	.5
Burma	7.8	6.3	.7	8.2	7.0	.7	8.4	7.7	.8
Japan	8.9	10.1	.7	9.3	10.0	.4	9.8	9.9	.4
Italy	.7	.4	.4	.6	.3	.3	.7	.3	.3
Australia	.5	.1	.3	.6	.1	.5	.6	.1	.5
Major Importers									
Indonesia	20.2	21.3	−.5	22.3	22.3	−.6	21.0	22.3	−.8
South Korea	4.0	5.5	−2.3	5.1	5.6	−.5	4.5	5.8	−.8
Bangladesh	13.9	13.6	0	13.4	13.9	−.4	14.5	14.5	−.4
Vietnam	6.5	6.6	−.1	6.8	6.9	−.1	7.1	7.1	0
Other Asia	16.1	16.6	−.7	16.6	17.2	−.8	16.3	17.2	−.6
USSR	1.8	3.0	−1.2	1.6	2.3	−.7	1.6	2.5	−1.0
Brazil	5.9	6.3	0	6.3	6.4	−.2	6.3	6.5	−.1
Other Latin Am.	4.3	4.4	−.1	4.8	4.6	+.1	4.7	4.9	+.1
Iran	.8	1.4	−.6	.8	1.4	−.6	.8	1.4	−.7
Other N. Africa/ Mideast	1.9	3.3	−1.5	1.8	3.5	−1.8	2.0	3.7	−1.8
Malagasy	1.4	1.6	−.2	1.3	1.6	−.4	1.3	1.6	−.4
Nigeria	.7	1.2	−.7	.8	1.4	−.6	.8	1.4	−.7
Other Africa	1.7	3.2	−1.6	1.7	3.3	−1.8	1.8	3.5	−1.8
Rest of world/residual	.7	1.0	−1.1	.7	2.9	−1.7	.6	2.5	−1.2
World total	265.8	265.9		276.2	275.2		271.4	275.6	

[1]Trade on calendar years; calendar 1982 corresponds to 1981/82. [2]Forecast.

the previous record of 3 million tons if South Korea imports large quantities of medium-grain rice from the West Coast. In 1981/82, U.S. exports were a disappointing 2.8 million tons. Foreign exports may remain at last year's level—below the 1980/81 high. [Bradley Karmen (202) 447-8879 and Eileen Manfredi (202) 447-8912]

Coarse Grains

Prospects for a record U.S. crop indicate that 1982/83 world coarse grain production may exceed last year's record. However, world use is expected to increase just 2 percent. Short supplies will limit use in several regions, and continued slow growth is foreseen for livestock industries in most developed countries. Nevertheless, world trade is likely to recover in 1982/83 because of larger imports by the developing countries.

Prospects Mixed For Major Importers

The Soviet coarse grain crop is estimated at 82 million tons, only 5 million above 1981's poor harvest. Therefore, Soviet imports may increase to 25 million tons, one-fourth of world trade. At this import level, the Soviets will be able to increase use 4 to 5 percent, partly offsetting the continuing drop in wheat used for feed.

Western European crops have benefited from generally good weather this season. Spain's barley crop suffered from erratic weather but will likely exceed the drought-reduced 1981 harvest. The country's coarse grain imports may decline more than 1 million tons as growth in use slows. In the EC, feed use may recover slightly, for limited gains are projected for the livestock sector in 1983. EC coarse grain imports are forecast at 10 million tons, near 1981/82, but well below import levels of the 1970's.

Japan's coarse grain imports may increase slightly in 1982/83. Pork and poultry output is expanding, and a recovery in formula feed production is anticipated. Under a government subsidy program, rice is being used in mixed feed, primarily replacing sorghum. Thus, feed use of coarse grains may not reach last year's reduced level.

Because of weather problems and input shortages, Eastern European production is likely to decline. Hard currency shortages and credit problems will restrict purchases, so 1982/83 imports may drop 15 to 20 percent from last year's 7.2 million tons, compared with 11 million tons annually in the previous 3 years. Reduced imports are likely for all countries except Romania, where the corn crop is down.

Better yields are likely to boost Chinese coarse grain production in 1982. Imports are expected to rebound to about 2 million tons.

Imports Of Developing Countries To Rise

Coarse grain production in the developing countries is expected to total near the 1981/82 record. Feed use is projected up 3 to 4 percent, following an 8-percent rise in 1981/82. Imports will likely rebound, perhaps increasing 4 million tons.

Coarse grains: World production, consumption, and net exports[1]

Country	1980/81			1981/82			1982/83[2]		
	Prod.	Cons.	Net exports	Prod.	Cons.	Net exports	Prod.	Cons.	Net exports
	Million metric tons								
Major exporters									
United States	198.4	147.3	72.1	248.9	156.4	61.2	252.6	161.3	66.2
Canada	21.8	17.8	3.2	25.7	17.6	6.8	25.5	18.0	7.1
Australia	5.2	3.0	2.2	6.8	3.6	3.1	4.9	3.3	2.1
Argentina	20.9	6.4	9.9	18.7	6.7	13.6	19.4	7.2	12.1
Thailand	3.3	1.0	2.4	4.5	1.3	3.2	4.1	1.3	2.8
South Africa	15.3	7.8	3.6	8.9	7.8	5.0	11.4	7.7	4.2
Major importers									
USSR	80.5	100.5	−18.0	77.0	102.5	−25.5	82.0	107.0	−25.0
China	84.8	85.7	−.9	82.5	83.8	−1.3	83.5	85.5	−2.0
Eastern Europe	61.9	72.4	−8.7	64.3	69.7	−5.9	62.8	68.8	−5.1
EC−10	69.7	76.2	−5.4	67.8	75.4	−6.6	67.2	75.9	−7.6
Other W. Europe	25.2	32.2	−7.7	20.1	32.5	−12.2	21.3	33.3	−11.4
Brazil	23.0	22.8	−2.1	23.5	22.9	+.4	23.4	23.3	+.4
Mexico	14.7	18.6	−8.2	17.0	21.0	−2.1	15.1	21.7	−4.5
Venezuela	1.2	2.3	−1.2	1.0	2.5	−1.4	1.4	2.7	−1.3
Other Latin Am.	7.5	9.3	−1.9	7.7	9.5	−1.6	7.8	9.8	−1.9
Japan	.4	19.2	−18.9	.4	19.1	−18.3	.4	19.0	−18.5
Taiwan	.1	3.7	−3.6	.1	4.0	−3.7	.1	3.9	−3.9
South Korea	1.0	3.8	−2.6	1.1	3.9	−2.7	1.0	3.8	−2.8
Other Asia	41.9	43.6	−1.9	43.0	44.9	−1.8	40.7	43.0	−2.1
Egypt	4.0	4.9	−1.3	4.0	5.0	−1.2	4.0	5.1	−1.6
Iran	1.1	2.3	−1.2	1.2	2.3	−1.3	1.2	2.3	−1.3
Israel	—	1.1	1.1	—	1.2	−1.1	—	1.2	−1.4
Other N. Africa/ Mideast	17.3	20.4	−3.3	17.4	20.9	−4.3	18.7	23.2	−5.2
Other Africa	30.0	31.1	−2.4	29.4	31.0	−1.6	30.6	31.8	−1.6
Rest of world/residual	.9	8.0	−3.0	.3	−2.4	−.7	.5	3.7	−2.7
World total	730.1	741.4		771.3	743.1		779.6	763.8	

— = negligible.

[1]Production and consumption on marketing year basis, trade on July-June year. [2]Forecast.

Because of erratic monsoon rainfall, India's coarse grain production may decline slightly to about 28.5 million tons. Thus, use may fall marginally. Brazil's coarse grain crop increased last spring, and another large harvest is forecast in 1983. Feed use did not increase in 1981/82, and a 2-percent rise is expected this year.

Mexico's coarse grain production may drop a tenth in 1982/83; dry weather has reduced yields. Consumption may rise 3 percent, following 1981/82's 13-percent jump. Thus, imports are forecast to increase substantially, despite foreign exchange problems. Expanding livestock industries in the rest of Latin America will boost imports 5 percent to about 3.4 million tons.

In the Middle East, feed use of coarse grains may rise 4 to 5 percent, following 1981/82's 7.5-percent jump. Iraq and Iran are attempting to rebuild commercial feedlots, which depend on imported grains. Saudi feed grain imports increased a third to 3 million tons in 1981 and may grow 20 percent in 1982. Middle Eastern imports expanded 13 percent in 1981/82 and are forecast up a tenth this year.

Some recovery is anticipated for the Moroccan barley crop, and North African coarse grain production may increase about 7 percent in 1982/83. Algerian and Egyptian poultry and livestock industries are growing rapidly. Feed use of coarse grains may jump about 11 percent in 1982/83, following 1981/82's 3.4-percent rise. North African imports rose over 500,000 tons to 2.94 million in 1981/82, and they may reach 3.4 million this year.

South Korea's grain feeding will continue to increase in 1982/83. Severe drought has reduced forage supplies, and prices for imported feed grains have declined. Hog numbers may expand about 16 percent in 1982; smaller gains are anticipated for poultry and cattle. The imports of East and Southeast Asia (excluding Japan and China) are forecast up 5 to 6 percent in 1982/83.

U.S. Coarse Grain Exports To Rise

As a group, our major competitors will have reduced exportable supplies during July 1982-June 1983. Argentina's spring coarse grain crop was down 11 percent from a year earlier, and early prospects point to little increase for the 1983 crop. Thus, Argentine exports may be down 1.6 million tons. South Africa's spring harvest was sharply lower, but large carryin stocks will allow exports of 4 million tons. Canada's coarse grain crop is forecast near the 1981 record, so Canadian exports may continue at about 7.5 million tons.

The U.S. share of world coarse grain trade will improve to around 64 percent in 1982/83. Having reached about 70 percent of world trade in 1979/80 and 1980/81, the U.S. share dropped to 59 percent last year. Shipments to the USSR, Mexico, South Korea, Africa, and the Middle East are expected to expand.

Foreign coarse grain stocks will likely remain low relative to use in 1982/83. The Soviets are not expected to rebuild stocks, because maintaining the livestock sector and increasing wheat stocks are higher priorities. With the anticipated record crop and sluggish growth in domestic use, U.S. stocks in 1983 may exceed the 1961 record. Corn prices on the world market have fallen this summer, and low prices are foreseen for the year ahead, because of the huge U.S. supplies and weak recovery in livestock industries. [Sally Byrne (202) 447-8857]

VEGETABLE OIL PROSPECTS FOR 1980's

World production of major edible vegetable oils has increased rapidly since 1980, driving prices sharply lower in nominal as well as in real terms. Record U.S. soybean and Malaysian palm oil production is projected to keep downward pressure on vegetable oil prices in 1982/83.

Record Production in 1982/83

Crop prospects for 1982/83 indicate world production of oilseeds at a record 185.1 million tons. Thirteen-percent production increases for soybeans and sunflowerseed are the major factors driving total oilseed growth 7 percent above a year earlier. Low prices should result in increased consumption of oilseed meals, especially in the EC where feed grain prices could average 10 percent above soybean meal prices. Many EC feeders may test the technical limits of oilseed meals in animal rations if protein meals are the cheapest source of total digestible nutrients. Increased production of soybean, rapeseed, and sunflowerseed oil will likely result from stepped up crushings. The EC could be the largest exporter of soybean oil.

Ample supplies and low prices of seed oils, particularly soybeans, should keep palm oil discounts at a minimum. However, even a dramatic acceleration in world economic growth probably wouldn't stem the increase in palm oil stocks.

The discount fats and oils, such as inedible animal fats and fish oil, cannot act as a price floor for vegetable oils, because of the limited size of the discount markets. However, the large markets for fatty acids and other organic chemicals, dominated by petroleum derivatives, can act as a price floor, absorbing large surplus quantities at a low price. Nevertheless, the expansion into industrial uses necessitates investment in new plants and equipment. So, it cannot be done very rapidly.

Overall, the increased stocks resulting from the 1982/83 harvests could continue to depress prices until either demand increases significantly, production problems arise, or government policies change.

A Question for the 1980's

Will consumers enjoy and producers have to contend with continued low vegetable oil prices during the latter two-thirds of the decade? There are many factors that make such a question difficult to answer. The vegetable oil market is volatile. For example, in 1974, unexpected shortages caused deflated prices to double. Furthermore, not only is supply subject to the vagaries of the weather, but supply and demand are sensitive to changes in such hard-to-predict factors as general economic growth, exchange rates, foreign exchange reserves, and various government policies. However, sufficient underlying trends and economic factors have been detected to allow an analysis of their implications for the vegetable oil market.

Coverage of the Vegetable Oils

Eight major edible vegetable oils dominate the market; five produced from annual plants—soybean, cottonseed, peanut, rapeseed, and sunflowerseed—and three from perennials—coconut, palm, and palm kernel. A comprehensive analysis was done of the long-run supply and demand relationships for these oils, based on con-

sistent forecasts of supply and utilization for grains, oilseeds, and livestock production in some 33 countries or regions.

Demand Elastic

The demand for vegetable oils is responsive to their prices. Although per capita consumption for edible purposes is not very price sensitive in developed countries, it is in these countries where vegetable oil use has expanded into the inedible market. The very low prices have given vegetable oils a greater ability to compete with petrochemicals in this market. Inedible demand for vegetable oil is more price sensitive and is increasingly elastic as prices drop. Most developing countries have a more price elastic food demand for vegetable oils than is typical among developed countries.

Consumption Increases To Slow

World population growth is expected to continue to slow slightly from the present rate, resulting in a 1.7-percent-a-year increase from 1980 to 1990. Population growth, albeit slower, is nevertheless a fundamental factor contributing to increased vegetable oil consumption. The most populous countries, China and India, may not increase vegetable oil consumption simply according to population growth; however, it will be an important factor. China's vegetable oil market is expected to remain relatively isolated from world trade, so consumption increases will depend on domestic production. India is the world's largest importer of vegetable oil, and population growth of 2.2 percent a year is an important factor there. However, government policy and foreign exchange limitations will likely affect consumption. Population growth in more market-oriented developing economies will directly influence demand for vegetable oil. However, declining rates of population growth, particularly in Latin America, are projected for the 1980's.

A key factor influencing the long-run assessment of vegetable oil demand is prospective economic growth. While specific forecasts vary, in this analysis, world per capita income growth is expected to average 1 percent a year in the 1980's, approximately half the level during the 1970's. Acceleration is expected from the sluggish levels of the decades' first years (1980-82), when world per capita income growth was slightly negative.

Studies indicate that the income elasticity of the demand for vegetable oil (an increase in income produces a proportionate increase in demand) varies between 0.6 and 1.2 percent depending on the region, but it averages about 0.9 percent. In developing countries, food demand for animal fats and vegetable oils is strong, while in developed countries, vegetable oils tend to replace animal fats as incomes increase.

Nonfood use of vegetable oils remains a small percentage of total consumption, but, at continued low prices, it is likely to grow as much as 10 percent a year over the decade. The soap and chemical industries are important users, but agricultural use in animal feed and pesticides could also increase significantly if prices remain low.

Supply Inelastic

The supply of vegetable oils is significantly less price elastic than demand (a rise or fall in price does not cause a proportionate change in the supply). This is due to vegetable oil's "byproduct" nature among most of the important oilseeds. For example, soybean meal for use in animal feeds contributes up to 70 percent of the product value received by soybean crushers, while soybean oil constitutes the remaining value. In the United States and Western Europe, demand for protein meal for livestock feed is the major determinant of the level of oilseed crush, which, in turn, results in vegetable oil production. Another important oil, cottonseed, is a byproduct of cotton fiber production. In addition, the area planted to oilseeds and the quantity crushed in any given year are further independent of oil prices, because oil can be stored longer than meal.

Tree-crop oil supplies are even more price inelastic than seed oil supplies. The time lag between production decisions (tree-plantings) and results, combined with their low variable costs of production relative to their fixed costs, causes coconut and palm oil to have an extremely weak production response to short-run price movements.

Production Increases Limited

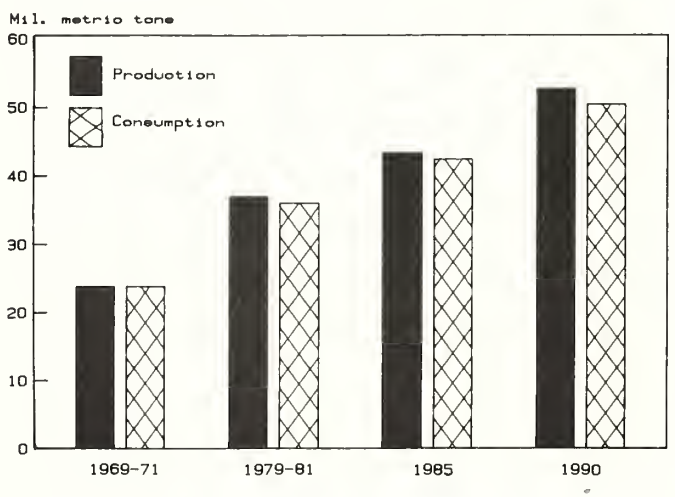
Production expansion of oilseeds is limited by competition from alternative crops, primarily based on relative prices and yields. Soybeans compete with corn for planted area in the United States and Brazil. Sunflowerseed and rapeseed tend to compete with wheat. If the recent declines in the relative price of vegetable oils and protein meals continue, the world area planted to oilseeds will likely stagnate or decline slightly. For example, slower expansion in Brazilian soybean area is largely caused by lower world prices for soybean meal.

The byproduct or joint-product characteristics of seed oils impose some limits on production increases:

- Slower growth in animal feeding in both the United States and the EC, major users of protein meal, could limit growth in world protein meal demand to a rate significantly below the 5.1 percent a year in the 1970's.
- Cotton-production increases at less than the rate of the1970's could limit seed production.

In addition, future production from oil palms and coconut palms is largely determined, because these trees do not begin economical production of fruit until about 5 years after they are planted. Therefore, credit availability becomes a crucial production determinant, especially

Production and Consumption of Vegetable Oils



in the inflationary environments of Africa and Latin America. Much of Malaysia's and Indonesia's expansion in palm oil production is the result of their credit policies.

Palm oil production is expected to rise faster than any of the other major vegetable oils during the 1980's. The scenario envisions an increase of 7.5 percent a year between 1980 and 1985. This forecast increase is very likely to materialize, because it is based on the maturation of area already planted. The more moderate 5-percent-a-year expansion projected for world palm oil during 1985-90 may prove to be a low estimate if yields increase significantly. African production faces severe constraints, but output in the Asian countries will likely expand at more than 5 percent a year because of high yield trends, planting intentions, and government policies in Malaysia and Indonesia. This growth pushes palm oil's share of total vegetable oil production from an estimated 12.8 percent in 1980 to 16.6 percent in 1990.

Soybean oil production is driven by protein meal demand. Dampened by slower growth in the world livestock sector, soybean meal demand in the 1980's probably won't increase as rapidly as during the 1970's. For example, in the EC, the world's largest consumer of protein meal, expected shifts toward increased feeding of grains and other feedstuffs in animal rations will limit demand growth for protein meal. The slowdown in meal demand will restrict increases in the world soybean oil supply to less than 3 percent a year. Growth will also be reduced because Brazilian production increases are slowing markedly. Advances in both Brazilian soybean area and yields are expected to moderate—the result of expansion into marginal lands and government policies favoring corn production.

Rapeseed oil is likely to be the most dynamic of the seed oils in the 1980's. Production increases are expected in China, India, and the EC. Only the increase in Canadian production will slow somewhat, because competition for cropland is expected to intensify. As improved varieties with low erucic acid are adopted, consumption is expected to keep pace with production.

Oversupply To Continue

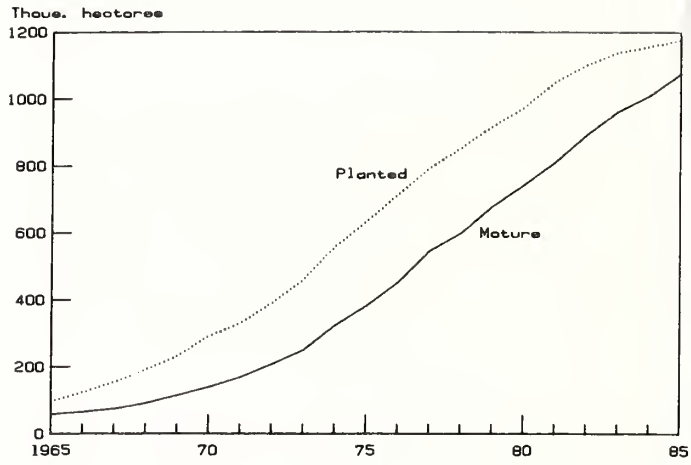
An analysis of inelastic supply growth, particularly in palm oils, concurrent with a modest increase in demand, implies a continued oversupply of vegetable oils. Although the bulk of this analysis was done before the large 1982 crops in the United States and Malaysia were forecast, the implications for the latter part of the 1980's are merely accelerated.

Total world consumption of vegetable oils was 98 percent of production during the 1979-81 base period, a time of declining prices. Although the ratio remains about 98 percent in 1985, by 1990, consumption declines to 95.5 percent of production. Implied long-term stock buildups will probably be modified, as in the past, by some downward pressure on the real price of vegetable oils. In contrast to 1980, this downward price pressure is not likely to be evenly spread throughout the market, but will concentrate heavily on a few selected oils, particularly palm oil.

Prices To Remain Low

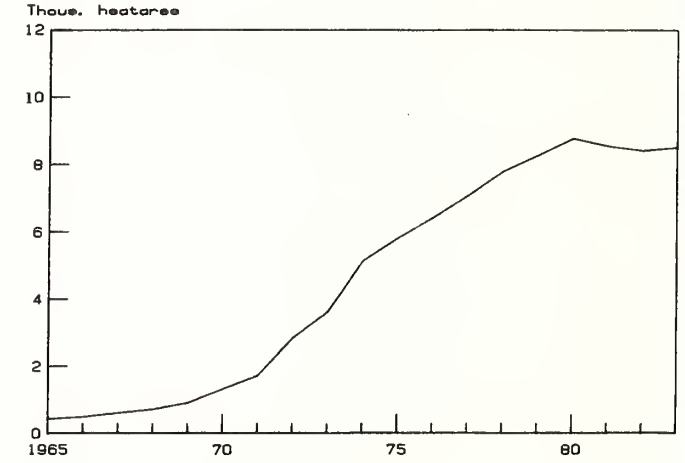
With the total vegetable oil market projected to be oversupplied, the index of real prices of all vegetable oils is likely to remain below 1980 levels through the 1980's. Although it is not certain how much downward pressure

Malaysian Oil Palm Area

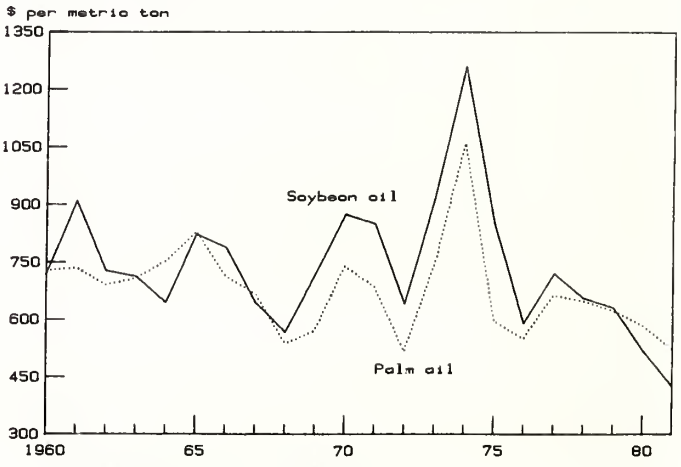


Source: Malaysian Oil Palm Growers Council Forecasts.

Brazil Harvested Soybean Area



Real 1980 Prices For Soybean Oil and Palm Oil*



* Soybean oil, Dutch, fob ex-mill; Palm oil, Sum/Mal, cif N.W. Europe.

the expected excess supplies of palm oil will place on the prices of other vegetable oils, an analysis of likely export market shares between soybean oil and palm oil would indicate that much of the real price decline, and certainly a price decline relative to other oils, will be concentrated in palm oil. This is likely because, in order to find more buyers, palm oil exporters will have to offer continued low prices. Relative market shares are affected by relative prices.

Based on the estimated shift in market shares and the market-share elasticities estimated by Houck and Ryan, the price ratio of soybean to palm oil is expected to move from its 1980 level of about 1 and the 1981/82 level of less than 1 to about 1.16 in 1985 and to 1.35 in 1990. The 1985 ratio is slightly above the 15-year average between 1966 and 1980 (1.11), and the 1990 ratio is similar to the 1971 and 1975 ratios, the highest in the analysis period. This 35-percent discount is an extrapolation of trends present in the market; however, it is probably too big a price differential to be considered a long-term equilibrium. The change in Malaysian exports from crude oil to fractionated portions, such as olein and stearin, also complicates price analysis. However, the drop in palm oil prices during July 1982 was not a market aberration, but a movement to trend levels.

Market shares and theoretical price ratios for palm and soybean oil

Year	Palm oil	Soybean oil	Ratio[1]
	Percent of vegetable oil exports		
1980	30	34	0.89
1985	33	29	1.16
1990	37	27	1.35

[1]Dutch mill soybean oil prices to N.W. European palm oil prices.

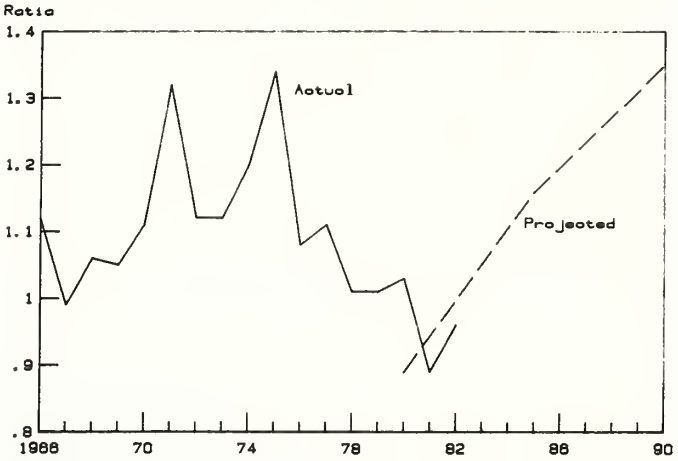
A ratio as high as 1.35 for European prices would imply a 1.1 ratio between Decatur soy oil and West Coast U.S. palm oil prices. In other words, to expand its market share as projected, palm oil will have to occasionally sell at a discount to soy oil even in the United States.

Upward real price movements in the vegetable oil market over the 1980's will clearly be limited by the oversupply of oil. Between 1985 and 1990, prices may recover from the current low, particularly for soybean oil, but are unlikely to be maintained at 1980 levels in real terms.

Although the general outlook is for stable to slightly declining real prices for vegetable oils over the long run, temporary supply disruptions due to unexpected political events or poor weather will continue to cause short-term price fluctuations. Historically, such instability has discouraged nonfood uses of fats and oils. However, the major fats and oils competitors, petrochemicals, are now experiencing wide price fluctuations. So, nonfood use should continue to expand its share of consumption, but not at a rate that will totally offset the anticipated oversupply. The expected decline in palm oil prices relative to other oils should make fractionated palm oil particularly attractive.

However, this analysis projects a market oversupplied by only 2 to 5 percent. If consecutive major production shortfalls occur, economic activity increases much faster than expected, or major infrastructural shifts away from petrochemicals should occur—causing nonfood use to expand at a substantially higher rate than 10 percent a year—then the inelastic supply of vegetable oils and animal fats could push real prices to 1980 levels or higher. [Edward Allen (202) 382-9820]

Actual & Projected Price Ratios of Dutch Mill Soyoil/N. W. European Porte Palm Oil



Dairy

Milk production continues to increase in most areas. Steadily rising yields play a significant role, as producers' operations become more efficient and herd quality benefits from improved breeds. With domestic demand for dairy products in the developed countries likely to remain weak and little prospect for the continuing expansion of import demand at past rates in the developing and centrally planned countries, dairy stocks are expected to keep building. International prices have weakened somewhat, but a key determinant for future prices will be what policies the United States adopts concerning exports.

U.S. Production Still Rises

In the United States, dairy cow numbers and output per cow continue to increase, resulting in milk production gains that have exceeded the growth in demand. Consequently, government purchases of surplus dairy products have risen to high levels.

Recently changed legislation will attempt to slow the growth in U.S. milk production. Dairy price supports, which were scheduled to increase in October, have been frozen for 2 years at $13.10 per cwt for milk with 3.67 percent fat. As an incentive for production cuts, Congress developed a collection plan that authorizes the Secretary of Agriculture to make a 50-cent per cwt assessment on all milk that producers sell commercially if Federal price-support purchases are estimated at 5 billion pounds or more (milk equivalent) during a fiscal year. The proposed regulations establishing the collection process will not be finalized until after a 45-day public comment period. Collections are scheduled to begin on December 1. Another provision starting April 1, 1983, authorizes the Secretary to assess a second 50 cents per cwt if Federal purchases are 7.5 billion pounds or more.

Foreign Output Also Up

In the EC, dairy cow numbers continue to decline, but this will be offset by increased yields. Target prices increased 10.5 percent in May 1982, and milk production is forecast to continue to rise. The EC has also reinsti-

tuted the program (retroactive to July 1, 1982) that allows government stocks of nonfat dry milk to be sold for mixing in feed rations for pigs and poultry. This legislation had been suspended in 1979, after stocks had reached relatively low levels.

Milk production in Canada is expected to increase 3 percent in 1982 because of higher support prices. However, because consumption is relatively stable, continuing increases in production have caused a rapid buildup of surplus stocks. Therefore, Canada has instituted a dairy program that calls for a 2.7-percent reduction of the industrial milk quota and a 6-percent ceiling on price increases. Output is forecast to decline 2 percent in 1983.

Weather-related problems with feed supplies affected milk production in some areas this year. Drought in Australia is expected to bring output down to last year's reduced level. Limited feed supplies, primarily concentrate feeds, reduced output in the USSR, although the dairy herd continues to rise. With favorable feed supplies in 1983, Soviet milk production could show some increase. [Linda M. Bailey (202) 447-4863]

Milk production

Country	1979	1980	1981	1982[1]	1983[2]
	Million metric tons				
United States	56.0	58.3	60.2	61.1	61.0
Canada	7.6	7.9	8.0	8.3	8.1
Mexico	7.1	7.0	7.2	7.2	7.3
Argentina	5.3	5.3	5.4	5.4	5.5
Brazil	10.1	10.3	10.5	10.7	11.0
France	28.0	28.3	28.4	29.1	29.8
Germany, Fed. Rep.	23.9	24.8	24.8	25.0	25.2
United Kingdom	15.9	16.0	15.9	16.3	16.5
Total EC-10	106.5	108.1	108.3	110.4	111.5
Poland	17.3	16.8	15.7	16.0	16.3
USSR	93.3	90.9	88.5	87.0	88.5
India	28.0	30.0	31.0	32.5	33.5
Australia[3]	5.8	5.6	5.3	5.3	5.4
New Zealand[4]	6.5	6.8	6.7	6.7	6.7
Other	54.7	56.1	56.6	56.8	57.2
Total	398.2	403.1	403.4	407.4	412.0

[1]Preliminary. [2]Forecast. [3]Year ending June 30. [4]Year ending May 31.

Source: Foreign Agricultural Service.

Sugar

Global sugar production in 1981/82 has been revised to 97.9 million metric tons, raw value, 1.6 million above the previous estimate. Consumption remains sluggish and is placed at 91 million tons. The sugar surplus of nearly 7 million tons puts further downward pressure on prices. World sugar output in 1982/83 could fall 2 to 3 million tons, but it will likely continue to exceed consumption, thereby keeping prices low.

1981/82 Surplus Up

World production of beet sugar in 1981/82—revised to 36.6 million tons from 35 million—has pushed projected sugar stocks up 1.6 million tons to 29 million. World stocks will then rise to 31 percent of estimated consumption—far above the 25 percent generally regarded as a good balance.

1982/83 Surplus Likely

A further addition to world sugar stocks looms over 1982/83, because world production seems likely to top 95 million tons, and sugar use may not rise above 93 million. Beet sugar output is estimated to decline about 1.5 million, but cane sugar may not drop as much.

Preliminary estimates of 1982/83 world beet sugar production indicate a total of 35.1 million tons, raw value, about 4 percent below the previous season. Production in the EC is projected at 13.7 million tons, down 2.1 million or 13 percent, a result of an 8.5-percent lower area and more normal yields. France, the largest EC producer, is expected to reduce output 681,000 tons to 4.8 million. France's harvested area could be nearly 12 percent less than last year. West German output is predicted to fall 591,000 tons. Drought and a reduced harvested area could lower Italy's production 542,000 tons. Eastern European beet output is also forecast to drop 5 percent from 1981/82, to 5.5 million tons. Poland's acreage is up, but lower yields are expected to reduce beet sugar output some 200,000 tons.

Poor weather and logistics problems slashed USSR beet sugar production in 1981/82 to the lowest in almost 20 years. In 1982, sugar beet area is only marginally higher, but yields appear closer to normal. Therefore, some 80 million tons of beets could be harvested, up 32 percent from last year's 60.6 million. Soviet sugar output is estimated at 7.5 million tons, up from last season's 6.4 million, but still far below the average 8.6 million during 1965-81.

U.S. beet sugar output in 1982/83 is estimated at 2.6 million tons, down nearly 13 percent from last season, a result of both reduced area and assumed normal yields. The harvested area of sugar beets fell 35 percent in California and 36 percent in Colorado.

Early prospects for world cane sugar show continued high production—near last season's record 61.3 million tons—despite drastically low prices. The ratooning of sugarcane means more than one crop can be obtained from a single planting, so the harvested area of cane tends to be less responsive to price changes than the area of sugar beets.

In Brazil and Cuba, 1982/83 production could exceed last season's 8.5 and 7 million tons, respectively. However, India's output is likely to fall from the record 8.5 million tons that were achieved with superlative weather last season.

Low Prices To Continue

Slow world economic growth and still-high interest rates are giving little stimulus to sugar import demand, whether for consumption or stocks. Most of the estimated rise in world sugar use in 1982/83 is based on population growth. The International Sugar Agreement's (ISA) world price averaged 6.8 cents a pound in August, about half the year earlier level. World prices averaged 16.9 cents in 1981 and 28.7 cents in 1980. Even with the planned stocking of 1 million tons via the ISA, 1.9 million (raw value) by the EC, and 0.6 million (raw value) by India, sugar continues to be traded at slightly under the cyclically low levels of 7 to 9 cents a pound 4 years ago. Prices will likely continue low through most of 1983. The possibility of an upturn depends largely on prospects for world sugar production in 1983/84. [Robert D. Barry (202) 447-7290]

Cotton

Production To Decline

World cotton production is forecast at 66.6 million bales in 1982/83, compared with last season's record 71.3 million. The anticipated drop in output reflects significantly lower U.S. production. As of September 1, U.S. production was placed at 11 million bales, 4.6 million below 1981.

The 1982/83 foreign crop could total 55.6 million bales, near last year's record high. Reduced plantings in Mexico, Egypt, Turkey, and Central America are expected to be more than offset by increased acreage in China and improved yields in Pakistan. The forecast Chinese crop of 14.5 million bales would be nearly 7 percent above 1981/82 and would make China the world's major cotton producer in 1982/83. Cotton production in the USSR is forecast at 13.8 million, about the same as last season.

Demand Expected To Improve

Global cotton consumption for 1982/83 is forecast at 67.7 million bales, up from 65.8 million last season. Poor economic conditions have limited use, but textile activity is expected to recover in late 1982 and to improve during 1983. Anticipated increases in mill use in China and the United States—at 0.5 and 0.3 million bales, respectively—account for nearly half the expected growth in use.

Foreign consumption is forecast at 62.1 million bales in 1982/83, 3 percent above a year ago. China, the largest cotton user, could consume 16.5 million bales. Modest gains are also forecast for most other major importing nations. In the Soviet Union, consumption could increase slightly to 9.6 million bales.

Stocks To Fall

Global cotton supplies should tighten during 1982/83. Because consumption could exceed production, ending stocks are forecast at 27 million bales, 1.2 million below beginning stocks. Most of the adjustment in world stocks reflects the decline in U.S. production prospects. Foreign stocks may be reduced by about a half million bales this season.

Trade Off Slightly

World cotton trade in 1982/83 is expected to be moderately lower than last season. Because of lower import needs forecast for Asia, total imports may be around 19.2 million bales, down from 20.3 million in 1981/82. Prospects for another record crop could push Chinese imports 0.8 million bales below 1981/82. The U.S. share of cotton trade could hold close to last season's 33 percent. World prices, as measured by the Outlook A Index, averaged 74 cents a pound during 1981/82, 19 cents below 1980/81. This August, the index was 76 cents a pound, 4 cents less than a year earlier. [Sam Evans (202) 447-8444]

Tobacco

Production Remains Stable

World tobacco production in 1982 is forecast at 5.68 million tons, farm weight, little changed from the 5.66 million produced in 1981. Production of burley and oriental tobacco will both be up about 7 percent, while flue-cured may drop slightly. Production of most other types of tobacco is also expected to fall. Production increases in Turkey, Brazil, Zimbabwe, Argentina, Canada, and Mexico will likely be offset by declines in the United States, India, Greece, and other countries.

Cotton: World production, consumption, and net exports[1]

Country	1980/81			1981/82			1982/83		
	Prod.	Cons.	Net exports	Prod.	Cons.	Net exports	Prod.	Cons.	Net exports
	Million 480-lb. bales								
Major exporters									
United States	11.1	5.9	5.9	15.6	5.3	6.5	11.0	5.6	6.3
USSR	14.3	9.3	3.9	13.8	9.4	4.1	13.8	9.6	3.9
Pakistan	3.3	2.0	1.5	3.5	2.2	1.0	3.7	2.2	1.1
Egypt	2.4	1.3	.7	2.3	1.3	1.0	2.0	1.4	.8
Central America	1.1	.1	1.0	.9	.1	.8	.8	.1	.7
Turkey	2.3	1.4	1.0	2.2	1.4	1.0	2.1	1.5	.7
India	6.1	6.3	.5	6.4	5.8	.2	6.3	6.1	.4
Sudan	.4	.1	.4	.7	.1	.5	.8	.2	.5
Mexico	1.6	.7	.8	1.4	.7	.8	1.0	.7	.3
Brazil	2.8	2.4	—	2.7	2.6	.1	2.8	2.6	.1
Major importers									
Western Europe	.8	5.1	−4.1	.8	5.0	−4.2	.8	5.0	−4.2
Japan	—	3.3	−3.2	—	3.2	−3.5	—	3.3	−3.3
Eastern Europe	.1	3.4	−3.5	.1	3.4	−3.2	.1	3.4	−3.2
China	12.4	15.0	−2.9	13.6	15.8	−2.6	14.5	16.5	−1.7
Korea, Republic	—	1.4	−1.5	—	1.6	−1.6	—	1.6	−1.6
Taiwan	—	.9	−1.0	—	1.0	−1.1	—	1.0	−1.0
Hong Kong	—	.7	−.7	—	.7	−.7	—	.7	−.7
Rest of world/residual	6.8	6.2	1.0	7.3	6.2	.9	6.9	6.2	+.8
World total	65.5	65.5	−.2	71.3	65.8	0	66.6	67.7	−.1

— = negligible. [1]Year beginning August 1.

Source: Foreign Agricultural Service.

Use Rising Moderately

Global tobacco use and trade is expanding moderately in 1982, and prospects are for the increases to continue next year. Output of cigarettes, the main product, is expected to grow at an annual rate of about 2 percent, with many developing countries in Asia and Latin America exceeding this pace. China's 14-percent boost in 1981 raised the world growth rate. Demand remains weak in many of the developed countries, so output increases will go largely for export, with strong gains in sales to Saudi Arabia, Iran, and Iraq. Developing countries in Asia and Africa continue to account for most of the growth in cigarette production. Manufacturers have economized on the tobacco content per cigarette, but lower production has kept world stocks down the last 2 years. However, adequate supplies of most types of tobacco, except possibly burley, will likely continue through 1985. [Verner Grise (202) 447-8776]

REGIONAL DEVELOPMENTS

United States

Large Harvests in Prospect

Crop production will be large again this year—the same as last year's record. Production was expected to be down because of the acreage reduction programs and the likelihood that yields would be somewhat lower than 1981's exceptionally high levels. However, favorable summer growing conditions have again boosted yields and offset the 1-percent cut in acreage. The acreage planted to wheat and feed grains was off about 2 percent, while rice and cotton plantings were reduced 13 and 20 percent, respectively. Soybean acreage increased 6 percent and partially offset reductions in other crops.

The wheat and feed grain crops are forecast 1 percent larger than last year's record, but 17 and 27 percent, respectively, above 1980. With increased acreage and higher yields, soybean output will likely be up 14 percent and will also be record-large. Cotton production will be down 30 percent, because farmers seeded fewer acres, and there was considerable weather damage to the Texas crop. Hay production will be adequate for winter feeding.

With large 1982 production and an increased carryover of 1981 crops, supplies available for domestic use and export will increase, except for cotton. With only modest increases in domestic use, the downward pressure on prices will continue.

Livestock prices have risen since the first of the year, and both hog and cattle feeders are earning a profit. However, poultrymen are still in a cost-price squeeze. Broiler prices have not risen much because exports are off, and the sluggish economy has affected away-from-home use of chicken. Cattle feeders have placed larger numbers of cattle in feedlots, which will help increase the demand for feed grains. However, total livestock and poultry production late this year and in the first half of 1983 will stay below a year earlier. Many producers were in a loss position in 1980 and 1981 and remain reluctant to retain female stock for herd expansion or to take on large new debts.

Exports of feed grains and oilseeds will likely rise, while wheat shipments may hold near 1981/82 levels. However, the export picture could change quickly if crops in the Southern Hemisphere do not develop as expected, or if foreign business activity perks up faster than currently seems likely.

Grain Stocks Increase, Prices Decline

Without substantially larger domestic use and exports, U.S. stocks of grains and oilseeds will increase further by the end of 1982/83. Total grain stocks will likely have doubled since fall 1981, while soybean stocks may be up about 40 percent. Cotton stocks will be smaller, but they will still be large by historical standards. By the end of next year, U.S. grain stocks are expected to account for more than 50 percent of the world total, up from about a third at the end of 1980/81. Soybean stocks will likely equal 60 percent of the world total.

Large grain supplies ensure abundant supplies of food, but the impact on farmers will be to dampen farm income. Cash receipts for crops in 1982 will decline because the large volume of production will be more than offset by lower farm prices. The sharpest reduction in receipts will be in the major field crops. However, receipts for most fruit and vegetables will be higher. Livestock receipts will be up somewhat, with hogs and cattle making the largest gains. Further, although moderate, increases in production expenses will lower net farm income in 1982. [A. Donald Seaborg (202) 447-8376]

Canada

Canada was expecting a bumper year for 1982/83, because farmers had planted record areas to wheat, corn, and soybeans. But an early frost in the western provinces the last week of August reduced yields and affected the quality of some crops. Nevertheless, Canada will have a good harvest, and supplies should be adequate to maintain 1981/82's strong export performance, with rapeseed the possible exception. Canada had forecast tight rapeseed supplies even before the frost, and any decline in production attributable to the weather may exacerbate the situation.

Meat Production Down, Exports Up

Total meat production is expected to decline 1 to 2 percent in 1982. Second-half beef production is forecast to be about the same as last year, but pork output will decline 3 to 5 percent. Meat exports for the first half of 1982 were up significantly, while imports declined. The U.S.-Canadian trade balance for meat has swung sharply in Canada's favor because of the weak Canadian dollar and reduced U.S. pork supplies.

Record Export Performance

Agricultural exports are the one bright spot in an otherwise dismal economy. For 1981/82 (July-June), exports of grains and oilseeds were over 27 million tons, exceeding even the Government's ambitious target of 26 million. Wheat and barley exports to the Soviet Union were especially large, accounting for 20 percent of the production of these two crops. Canada relies heavily on bilateral agreements for grain exports; approximately 79 percent of the wheat exported in 1981/82 was under such arrangements.

Agricultural exports have benefited from the weak Canadian dollar that has appreciated less against major currencies than the U.S. dollar did, and from a more efficient transportation system due partly to a reduction in movements of nonagricultural commodities. Nevertheless, these two factors are also symptoms of Canada's serious economic recession. Unemployment and inflation are both around 11 percent. Interest rates remain high, but they have recently fallen following the decline in U.S. rates. The gross national product is expected to decline 2 percent or more, although some recovery is likely in 1983. [Carol Goodloe (202) 447-8378]

Western Europe

EC grain production will be high in 1982, resulting in greater export potential. Large quantities of home-produced wheat and increased feed use of manioc and corn-gluten have reduced the consumption of imported corn—an important U.S. export to the EC.

Bumper Harvest Expected

Preliminary forecasts indicate that Western Europe will harvest a bumper grain crop in 1982, despite severe drought in certain regions of France, Italy, and Spain. Total output is likely to match or surpass 1981's near-record 149 million tons. Expected increases in both wheat and corn production in the EC should contribute significantly to the overall rise in grain production. Assuming at least normal yields, EC wheat output could reach a 56-million-ton record. However, coarse grain output is expected to fall slightly below 1981's 68.3 million tons.

The area planted to wheat is estimated to be up again in 1982. Increases in France and the United Kingdom—both major EC producers—are estimated at 3 and 10 percent, respectively. Ireland, Denmark, and Greece also show increases, while West Germany, an exception, reports a 3-percent drop—partly due to a switch from winter to spring plantings because of extensive damage over the winter.

Barley production is expected to remain high but will fall below 1981's output of 39.6 million tons, largely because of reduced area. In West Germany, nearly one-third of winter-sown barley was lost to severe weather. In Denmark, the decline in the barley crop was largely due to increased plantings of rapeseed and various feed crops.

EC corn production could exceed 1981's record 18.6 million tons. The area increased sharply in 1982, especially in France (the major EC producer), Italy, and West Germany. The area sown to oats, a crop of decreasing importance in the EC, may show an increase of 2 percent in 1982, with a rise in West Germany offsetting declines in the United Kingdom and France.

EC Wheat Exports Will Increase

Because of its large quantities of wheat, the EC is likely to embrace an aggressive export policy in 1982/83. It could export a record 15 million tons (excluding intra-EC trade), with France contributing over 12 million. EC wheat exports were 13.5 million tons in 1981/82. Because world grain prices are expected to remain bearish throughout 1982, EC wheat exporters will likely benefit from large export subsidies. Export subsidies for wheat were approximately $66 to $70 a ton in recent months, about one-third of the world market price.

Feed Sector Uses More Wheat

An incentive to increase wheat plantings in the EC has been expanding demand from the feed sector. Since the mid-1970's, the use of wheat for livestock feed has grown at a 6-percent average annual rate. During the same period, feed use of other grains declined. These trends are expected to continue during the coming year. The rising use of wheat in feed largely reflects a pricing policy to encourage such use rather than that of corn—an important U.S. export product that is subject to high EC import levies. Consequently, U.S. exports of corn to the EC have fallen sharply in recent years.

The EC has also proposed a subsidy for all EC grain used in feed —an attempt to reduce export subsidy costs, as well as to lower costs to livestock producers, a policy that would further encourage increased feeding of wheat. However, the net cost of this arrangement may make it unacceptable.

Another factor explaining the sharp decline in corn feeding in the EC is the increased use of relatively lower priced imported nongrain feeds. Increases in the use of nongrain feeds, such as manioc, have not been uniform throughout the EC. In addition to the United Kingdom, significant increases have occurred in the Netherlands and West Germany. Use has been greatest in EC areas with grain deficits and with an infrastructure in place for handling imported feed ingredients. The increased use of feed grain substitutes has, however, resulted in reduced EC demand for imported grains, principally corn, while contributing to exportable grain surpluses (wheat and barley) within the EC. [Marshall H. Cohen (202) 447-8290]

Australia

Drought Returns

Dry weather in the Eastern States is harming grain and livestock production. Rainfall since March has been less than 50 percent of normal in Queensland and New South Wales. Planting conditions for winter crops (wheat, barley, and oats) have been dry. The area sown has been less than intended, and germination has been below normal. Moreover, crops that have germinated have been stressed by lack of moisture. Cattle slaughter has been larger than last year, even though the size of the herd is smaller, because poor forage availability has resulted in forced marketings in some areas.

Wheat Crop Down

The wheat crop, which will be harvested this coming November and December, has been forecast at 9 to 10 million tons, well below last year's 16.4 million tons. Most of the reduction is anticipated in New South Wales and other Eastern States. The weather is normal in Western Australia, which may be the largest producer this year.

Wheat exports during the 1982/83 crop year will decline substantially. A drawdown in stocks will help maintain exports, while domestic consumption will continue about the same as in past years. Reductions in barley and oat crops are in prospect, indicating lower exports. Feed use may increase because poor forage supplies will probably need to be supplemented.

Beef Output Up

Production of beef and veal during the first 5 months of 1982 has been 22 percent larger than the preceding year. Dry weather increased slaughter in Queensland and supported cattle marketings in New South Wales. While the increase in slaughter probably won't continue throughout the year, annual beef production and exports will likely be larger than last year. Australia may restrict beef shipments to the United States to avoid triggering U.S. meat import quotas.

The balance of trade has become more unfavorable as imports exceed exports. Consequently, the exchange rate has dropped from US$1.16 per Australian dollar to around $1.00. This should stimulate exports while discouraging imports. [Allen O. Johnson (202) 447-8378]

Japan

Storms Damage Crops, Livestock

Flooding in late July in southern Japan caused substantial damage to crops and livestock. The most severe damage was inflicted on soybean, rice, and adzuki bean crops. A typhoon flooded farmland in central Japan, causing heavy damage to rice, vegetables, and fruit. Total damage from the storms has not yet been determined, but the severe weather could mean lower yields for rice, pulses, and some fruit for the third consecutive year.

Livestock Production Up, Imports Down

After little growth in 1981, Japan's livestock industry is beginning to show signs of recovery. All major categories of livestock products showed output gains for the first half of 1982, compared with a year earlier. The total output of formula feed was up during the same period, with increased feed for chicks and broilers registering the greatest expansion. High prices in late 1981 stimulated egg production, while a falloff in broiler output last year caused the Government to encourage production in 1982. Growth in formula feed production is expected to be slow, however, because of the recession.

Livestock and feed price indices, Japan

Year[1]	Price received for livestock products	Prices paid for feed	Ratio
		1975= 100	
1976	103.4	102.9	100.5
1977	102.9	100.9	102.0
1978	100.5	87.8	114.5
1979	105.9	93.5	113.3
1980	113.0	108.4	104.2
1981	109.3	112.1	97.5
1981			
Sept.	112.6	112.2	100.4
Oct.	110.8	112.0	98.9
Nov.	111.5	111.9	99.6
Dec.	115.1	111.9	102.9
1982			
Jan.	105.0	107.7	97.5
Feb.	104.6	106.8	97.9
Mar.	105.3	106.5	98.9
Apr.	106.0	106.1	99.9
May	105.4	106.1	99.3

[1]Japan's fiscal year April to March.

Source: MAFF *Monthly Statistics*, July 1982.

Imports of beef, pork, and eggs and egg products were down during October 1981-April 1982, while chicken and dairy products were up. As domestic production picks up, pork imports are expected to decline about 20 percent from the record 184,000 tons reached in 1981. Most of the decline will occur in Danish pork imports, because of a ban imposed in late March due to foot and mouth disease in Denmark. Mainly because of higher export prices, U.S. pork exports to Japan are expected to be lower in 1982; at the same time, Canada has increased its share of the market.

While Japan's total imports of coarse grains were down 3 percent during the first three quarters of the U.S. fiscal year, imports from the United States were off 15 percent. Both the volume and share of U.S. corn exports were down, as South Africa increased its share significantly. U.S. sorghum exports were up 4 percent, although some of the market was lost to Australia, whose exports more than doubled. After an 18-month absence from the market, Argentina has resumed sorghum exports to Japan, shipping 134,000 tons since September 1981. As a result, U.S. sorghum exports to Japan are expected to decline next year.

Medfly Treatment Requirements Relaxed

Since August 1981, when a Mediterranean fruit fly infestation was discovered in California, Japan has required all Medfly-susceptible produce (except lemons) from nonregulated areas in California to be treated before export; e.g., cold treatment or fumigation. But as of May 25, California produce from these areas can be shipped to Japan without treatment. The shipment of produce from areas remaining under quarantine (substantially reduced as of August 6) is still prohibited, however. This action should reduce fumigation costs for California producers. A recent Medfly discovery in a noncommercial area of Los Angeles County, thought to be a new introduction of the pest, has not prompted any reaction from Japan so far. [Lois Caplan (202) 447-8860]

USSR

Because of poor weather throughout the Soviet Grain Belt and a reduced grain area, the USSR is expected to see its fourth consecutive poor harvest. Livestock inventories in the socialized sector have remained at record levels for both cattle and poultry but have dropped somewhat for hogs. Meat production in 1982 is forecast only slightly above 1981.

Crop Prospects Deteriorate

Prospects for Soviet grain crops have generally deteriorated since early spring—the result of poor weather and a preliminary grain area of only 123.9 million hectares, down about 2 percent from last year. Most of the reduction is in spring grains and is thought to generally affect marginal lands. The current USDA estimate for 1982 production of grain and pulses in the USSR is 170 million tons, compared with an average of 205 during 1976-1980.

Winter grains in the European portion of the USSR were sown in generally dry soils and developed slowly

because of cool temperatures. Nonetheless, winter grains are forecast at 58 million tons, a good crop, although far from a record. Yields suffered a setback in late June and early July, when a sukhovey (hot, dry winds) damaged grains in the Eastern Ukraine, Lower Volga Valley, and the Northern Caucasus. Spring grains were also damaged, with the sukhovey striking at a time when flowering was occurring, thereby reducing yields substantially.

In the New Lands, the weather was poor all summer. Two major sukhoveys hit virtually all of the spring grain area in June and July, causing substantial reductions in yield estimates. Kazakhstan's average annual grain production is usually about 27 million tons; most current estimates place 1982 production at 16 to 20 million.

With production at such a low level, grain import demand is projected at 44 million tons in 1982. This year's estimate includes 18 million tons of wheat, 25 million of coarse grains, and 1 million of miscellaneous grains and pulses.

Grain use may reach 214 million tons. In contrast, grain consumption in 1980, the last year in which the Soviets reported output, is thought to have been about 228 million. The use of grain for livestock feed may amount to 119 million tons in 1982. The low feed use, combined with large animal inventories, has led to generally lower slaughter weights for cattle and hogs and to an only slightly improved outlook for meat production in 1982. In addition, press reports indicate that the Soviets are going to unusual lengths to harvest forage crops in an effort to maintain inventories.

Results of Midyear Plan Fulfillment

Reports indicate that on August 1, 1982, cattle and poultry inventories on state and collective farms were at record levels compared with a year ago. Cattle numbers, at 94.6 million, were up 800,000, and poultry numbers rose 22.3 million to 756 million. Hogs, at 58.2 million, were down 100,000. Monthly changes in livestock inventories between July 1 and August 1, 1982, showed no above-normal slaughter levels, indicating that herds were still being maintained. However, this maintenance has been at the expense of lighter slaughter weights and also lower animal productivity.

Based on August 1 results in the livestock sector, it is estimated that cattle and poultry numbers will remain at record levels for the duration of the calendar year, but hog and sheep and goat inventories will decline. Total meat production in 1982 could show a small increase from 1981's 15.2 million tons. Total milk production is expected to drop 2 to 3 percent below 1981's reduced output of 88.5 million tons. With lower prospects for milk production, it is expected that butter output will decline further.

Other Crop Prospects Mixed

The outlook for both sunflowers and sugar beets is poor. Sunflower production is forecast at 5.0 million tons, up about 8 percent from 1981, but still more than 20 percent below plan. The sunflower area was the smallest since 1975. Sugar beet production is currently forecast at 80 million tons, almost 20 percent below plan, but up about 32 percent from last year. Beet sugar production will again be inadequate to meet domestic requirements. Accordingly, Soviet sugar imports will be higher in 1982.

In contrast to other crops, Soviet cotton had a good beginning this year. The seeding pace was the fastest in several years, and apparently no major reseeding was required. However, continuing hot and dry conditions, coupled with lower-than-normal irrigation supplies over much of Soviet Central Asia, have decreased prospects of matching 1980's record of nearly 10 million tons, raw basis. This year's production is projected at about 9.8 million tons.

U.S. Offers To Extend Grain Agreement

On July 30, the Reagan Administration offered the Soviet Union another 1-year extension of the U.S.-USSR Long-Term Grain Agreement. The Soviets accepted in mid-August. This represents the seventh year of the agreement that calls for the Soviets to purchase a minimum of 6 million metric tons of grain, with approximately equal shares of wheat and corn. The President further indicated that the Secretary of Agriculture will be exploring the possibility of offering to sell to the Soviets substantial quantities of grain beyond the minimum. [Jim Cole (202) 447-8380]

U.S. Grain exports to the USSR, grain agreement year[1]

Year	Wheat	Corn	Total		U.S. offer
	Mil. m.t.	*Mil. m.t.*	*Mil. m.t.*	*Mil. dol.*	*Mil. m.t.*
1976/77	3.1	3.0	6.1	794	[2]8.0
1977/78	3.5	11.1	14.6	1,589	15.0
1978/79	4.0	11.5	15.5	1,872	17.0
1979/80	2.2	5.7	7.9	1,127	[3]25.0
1980/81	3.8	5.7	9.5	1,598	14.0
1981/82	[4]6.1	[4]7.8	[4]13.9	2,111	23.0

[1]October 1-September 30. [2]The agreement allows up to 8 million tons without consultations. [3]With the partial embargo on January 7, 1980, the offer was reduced to 8 million tons. [4]Exports as of Sept. 17, 1982.

Source: Export Sales Reporting Division, FAS; value estimated by EE-USSR Branch, ERS.

Eastern Europe

Balance-of-Payments Problems Cut Imports

Nearly all countries in Eastern Europe are encountering increasing difficulties in meeting their debt-payment obligations. The situation in Poland has contributed to a growing reluctance on the part of Western banks and governments to extend new credit to most countries in the region. The declining availability of hard currency has resulted in less agricultural imports this year. The declines have been strongest in Poland, where agricultural imports during January-June 1982 were roughly 60 percent of a year earlier.

Because of the previous reliance on large credit and credit-guarantee programs to maintain a sizable market share, U.S. agricultural exports have been strongly affected by the worsening balance-of-payments situation. In the first 10 months of fiscal 1982, the value of U.S. agricultural exports to Eastern Europe at $843.4 million, amounted to less than a half that of October-June

1980/81. The major export items—corn, wheat, soybean meal, and soybeans—were all affected. Poland and Romania accounted for 80 percent of the decline.

Crop Prospects Mixed

Crop prospects generally indicate an average year for Eastern Europe. Grain production is forecast from 95 to 97 million tons, compared with the 1978-81 average of 94.2 million. The harvest of winter grains is expected to be favorable. Spring grains, on the other hand, were sown late this year and suffered through a dry May. However, abundant rains in major growing regions in July improved prospects for corn.

Above-average winterkill of rapeseed, which accounts for nearly one-third of total oilseed production, combined with average crops for soybeans and sunflowerseed, is expected to cause a small decline in oilseed output for Eastern Europe. Production is now estimated at 3.9 million tons, compared with 4 million in 1981. Prospects for the other major crops—sugar beets and potatoes—indicate production below last year. Dry weather during July and August in Czechoslovakia, the German Democratic Republic, and particularly Poland was detrimental to the development of row crops, meadows, and pastures.

Livestock Sector To Remain Depressed

Reduced feed imports this year are expected to keep livestock inventories and livestock product output for Eastern Europe down. Meat production probably won't recover from last year's 4-percent decline and might fall further. Egg production may not increase for the first time since 1963, largely because of declining output in Poland. Production of milk, on the other hand, is expected to recover at least partially from last year's 2-percent decline.

Trade Prospects Dim

Eastern European agricultural imports are expected to show little, if any, recovery in 1982/83. Grain imports are expected to decline from the estimated 13.3 million tons for July-June 1981/82 to 10.9 million this year.

For soybeans and soybean meal, modest declines in volume are anticipated for 1982/83. Because grains, soybeans, and soybean meal account for the bulk of U.S. agricultural exports to the region, the value of total U.S. exports in fiscal 1983 is not expected to exceed 1982's estimated $1 billion. [Edward Cook (202) 447-8380]

China

China's 1982 plan schedules a 4-percent increase in agricultural output for the year, with a modest 2.6-percent rise planned for grain production. Expanded application of science and technology, better management, and incentive systems that tie income more directly to production are expected to provide the stimulus for greater output. It is too early to tell whether the overall target will be met, but the output of most crops will be up. This expansion, coupled with China's efforts to limit imports, means that the value of farm imports will probably decline this year.

Record Grain Production Planned

Grain production in 1982 is targeted to be 1 million tons more than 1979's record 332.5 million tons and 2.6 percent greater than 1981. This growth will have to come from higher yields, because grain area is down by an estimated 1 million hectares. Current estimates suggest that output will be up, but it may fall short of target.

The wheat crop was about the same as last year's 58.5 million tons. Drought during fall and spring did not have as severe an effect on summer production as was originally expected. Therefore, the summer grain harvest increased 2.05 million tons or 3.2 percent, the second best crop in history. About 60 percent of the increase, or 1.2 million tons, was winter wheat. The rest of the increase came from barley, pulses, and other miscellaneous grains. Poor weather in Heilongjiang, which produces nearly half of the country's spring wheat, will likely cause a decline in the production of this crop.

Wheat imports for 1982/83 are expected to be somewhat larger than last year because of low market prices, a continuing growth in demand, and limited increases in government grain purchases from the countryside. The increase in imports will come from non-U.S. suppliers.

The growth of coarse grains in northern China should have improved since timely June rains alleviated the drought. Yields are expected to be up somewhat. However, production will probably increase by only about 1 percent to 83.5 million tons, because of continued drought in the northeast and shifts of coarse grain area to soybeans and other cash crops.

Coarse grain imports will rise to about 2 million tons in 1982/83. Some corn imports are used for feed in the urban areas, although large-scale use for livestock-feeding operations is not in the offing. Other likely uses of imported corn are for processed food and industrial purposes, as well as for human consumption.

Preliminary reports indicate that growth of the early rice crop was very good, and the intermediate and late crops are generally progressing well. Here, too, area has been cut back in favor of cash crops and less intensive cropping, but higher yields should compensate. Rice production is expected to be 98.6 million tons, slightly above last year.

Another Record Oilseed Crop Forecast

Total oilseed production is expected to increase 7 percent to almost 26 million tons, with most of the gain coming from soybeans and rapeseed. Greater area is the sole cause for the rise in rapeseed production, up nearly 11 percent to an estimated 4.5 million tons. However, incentives for soybean production have worked to stimulate increases in both planted area and yields. Soybean production is projected at 10 million tons, an 8-percent increase from last year. Between 1977 and 1981, the production of oilseeds and edible oils increased 65 and 91 percent, respectively, greatly curtailing the demand for imports.

Cotton Crop Increases from 1981 Record

The cotton outturn in 1982 is expected to set another record—14.5 million bales. Sown area has increased 300,000 hectares, nearly 6 percent. Slightly bigger yields are expected because of a greater use of pesticides and higher yielding varieties, a better nutrient balance in fertilizers, and improved crop management, including greater concentration of the crop in specialized production areas.

Because of the anticipated record crop, cotton imports for 1982/83 may decline 30 percent to about 1.8 million bales. Growing domestic production of synthetic and cotton-blend fabrics has also contributed to the decline in import demand. [Debra A. Bender (202) 447-8676]

Asia

Poor Monsoon Hurts India Crops

Although the 1982 monsoon picked up considerably over most of India during late July and early August, its delayed arrival in the north and erratic behavior in the east have dimmed the outlook for kharif (fall) harvests of grain and oilseeds. The 1982 rice crop, earlier projected at 54.5 million tons, is now forecast at 50 million because of reduced plantings and lower yields due to late transplanting. Poor planting conditions in millet- and corn-producing areas of northwest India have led to a 3-percent drop in 1982/83 coarse grain production, forecast at 28.8 million tons. The forecast for the 1982 peanut crop has been reduced from 6.2 to 5.5 million tons because of poor planting conditions in the main producing state of Gujarat.

Imports and reduced public distribution of wheat have led to an improvement in the Government's food grain stocks. On July 1, 1982, cereal stocks stood at 15.3 million tons, 1.7 million higher than a year earlier. Despite the increased stocks, reduced prospects for kharif production of food grains, coupled with the need to continue stock rebuilding, led to the purchase of 2.5 million tons of U.S. wheat in August 1982.

Declining rice stocks, the short storage life of about half of the 7.6 million tons of wheat procured in 1982, and rising cereal prices are expected to make it difficult for the Government to continue to conserve wheat stocks by limiting public distribution during 1982/83. Wheat and rice prices rose during June and July, and cereal prices averaged about 9 percent higher in real terms during January-July 1982 than a year earlier. Additional wheat imports of 1 to 2 million tons are possible during 1982/83, particularly if the Government elects to build stocks to targeted levels.

Vegetable Oil Imports To Drop

Indian imports of vegetable oils are expected to decline to about 1.1 million tons in 1982, compared with about 1.35 million in 1981, a result of the record 1981/82 oilseed harvest. In 1983, vegetable oil imports are projected to increase to 1.4 million tons because of the lower forecast for the 1982 peanut crop, as well as the slower output growth projected for other oilseeds. Soybean oil imports are forecast at 550,000 tons for 1982 and 700,000 tons for 1983. Brazilian soybean oil has continued to dominate Indian purchases, and the U.S. share is expected to be about 100,000 tons in 1982.

India's record 1981/82 sugar output of 8.4 million tons has resulted in excess stocks, increased export promotion efforts, and the formation of a 500,000-ton buffer stock to help stabilize prices. Sugar exports are expected to rebound to about 532,000 tons during 1981/82, following 2 years of tight supplies.

Bangladesh's Rice Crop Down

Bangladesh's spring rice crop is expected to decline 6 percent to 3.1 million tons because of a dry spell at planting time. However, a good start to the monsoon has improved prospects for the main summer rice crop. The total 1982 output of food grains may surpass 1980's record 15 million tons. However, food grain imports should match last year's 1.3 million tons, as Bangladesh again attempts to rebuild its food security stocks following the monsoon failure of 1981. Barring another monsoon failure, ending stocks on December 31, 1982, should reach 1 million tons.

Pakistan's major summer crop—cotton—enjoyed favorable weather, sufficient water supplies, and good soil moisture. The official production target for cotton during 1982/83 is 3.8 million bales, up 9 percent. Pakistan's rice crop has suffered from insufficient water supplies. Rice area is down 10 to 15 percent from 1981, and production is forecast at only 3.1 million tons, 6 percent below 1981. Pakistan's recently completed wheat harvest was 800,000 tons below expectations. Consequently, only 50,000 tons will be exported to Iran during 1982.

Sri Lanka's total rice production for 1982 will be about 4 percent lower than in 1981. Drought has harmed both the Maha (first and larger) and the Yala rice crops. Consequently, imports are expected to be about 200,000 to 300,000 tons during 1982, compared with 175,000 in 1981. Burma, China, and Pakistan will supply most of it.

East Asian Rice Harvest Reduced

Despite the record-large Indonesian rice harvest during April-June, subsequent drought in major dry-season areas dropped the overall prospective output to 21 million tons, 6 percent below 1981's 22.3-million-ton record. Government imports of high-quality rice for profitable resale could total nearly 600,000 tons. Current high stocks—2.9 million tons of generally lower quality rice—will be drawn down significantly by large distributions during October-January.

Although Indonesian palm oil production will rise about 8 percent to 800,000 tons in 1982, total exports will likely remain near 1981's 240,000 tons, with about a fourth of it processed and sold as refined oil. Under a government-mandated allocation program, palm oil continues to account for virtually all of the growth in domestic vegetable oil consumption, despite the Indonesian preference for higher priced coconut oil in traditional cooking uses.

Malaysian palm oil production, nearly 60 percent of the world total, is forecast at 4 million tons, 11.7 percent above 1981. This large increase stems mainly from an expansion in oil-bearing area, a continued recovery from the weather-related problems of January-May 1981, and the positive effects of imported African pollinating weevils, which increase fruit bunch sizes and corresponding oil yields. Malaysian palm oil exports are forecast at 2.8 million tons, nearly 95 percent of which are in processed form.

Thailand Expects Record Rice Exports

Considerable drought has been reported in northern regions of Thailand, pushing 1982 rice and corn production estimates down to 11.7 million and 3.8 million tons, respectively. Nevertheless, the good corn prices at planting time (April-June), caused by overselling of the 1981 crop, have been replaced by sharply lower ones at the

onset of the 1982 harvest. Rice export prices for all but the highest grade fell below $300 a ton in July, the lowest in 5 years. However, they have risen slowly since. Thailand will likely export a record 3.3 million tons of rice in 1982.

Other crops also face marketing problems caused by high carryover stocks. The 5-million-ton quota provisionally set for EC imports of tapioca (cassava) pellets was filled by mid-August. A 500,000-ton addition to the quota is possible for 1982, but it leaves no margin for excess 1983 imports and probably would not be enough to clear the Thai market. Sugar production (milled in early 1982) far exceeds domestic needs and the ISA quota. Therefore, Thailand has asked permission to export an additional 600,000 to 800,000 tons.

With all crops but corn in considerable surplus, the Thai Government has decided to allow exports to move freely and has confined itself to sporadic purchasing of farm commodities in various areas in an attempt to boost producer prices. Rice export levies are not expected to decrease further.

South Korean Feed Grain Imports Rise

South Korea experienced a mixed economic performance in the first half of 1982. The $1.4 billion balance-of-payments deficit was $1.3 billion less than a year ago, and inflation was below 5 percent. However, a primary cause of these developments was slow economic growth, with very little increase in export earnings. The Government recently adopted strong stimulatory policies by lowering interest rates and cutting taxes to encourage investment and consumption.

A U.S.-Korean agreement allows annual volume growth of up to 4.5 percent in cotton textile exports to the United States, a welcome concession for Korea, which still faces a possible reduction in access to the EC market.

While South Korea's economic prospects point to only a gradual increase in consumer spending on livestock products, this sector has shown more growth than expected in 1982. Feed grain imports and feed mixing have been running well ahead of the 1981 pace, spurred by high retail prices, low feed prices, and increased producer confidence that stable growth in demand for livestock products will probably be maintained. U.S. feed grain exports to South Korea are expected to reach 2.9 million tons in fiscal 1982, up 20 percent from 1981.

South Korea experienced widespread dry conditions until June, and again in most of July and August. Therefore, the estimate for the rice harvest has been dropped to 4.5 million tons, 500,000 below 1981. Good rains in mid-July and mid-August stabilized growing conditions, but previous concern about how South Korea could manage its heavy rice stocks has been replaced by estimates that imports may be required in 1983. Nonirrigated crops like tobacco and soybeans have also suffered from the drought.

The Democratic People's Republic of Korea (DPRK), like South Korea, has experienced drought in 1982, which has probably hurt its corn and tobacco crops. On the other hand, a record availability of fish has been reported. [E. Wayne Denney (202) 447-8229]

Africa and the Middle East

Egypt's Trade Policy Changes

In 1981, Egypt's agricultural imports increased about 20 percent to a record $4 billion. The growth rate during 1982 will be about 11 percent. The most striking reductions have been in high-value food imports, particularly semiluxury foods (frozen turkeys and chickens, beef liver, canned food, apples, and bananas) distributed by private traders.

The slower rate of growth is a result of policy changes established by the Import Rationalization Committee (IRC), which first convened in February. The first change was a ban on imports of poultry meat for 6 months beginning in March. Then came a ban on imports of apples and bananas. In the case of poultry, the ban was established for three reasons. First, as an incentive to domestic producers; second, a large volume of beef had entered the country, and stocks of poultry meat were about 30,000 tons; third, refrigerated storage facilities were inadequate, and some of the meat spoiled. The ban on bananas and apples was reportedly established to save foreign exchange.

Egypt's foreign exchange earnings increased markedly between 1978 and 1981, mostly because of the growth in petroleum revenues. It appears that 1982 petroleum exports will remain stable at about $2.7 billion. At the same time, cotton exports are facing tougher competition in world markets, while earnings from tourism were down in early 1982. In 1981, Egypt had a trade deficit of about $6.5 billion, mostly covered by remittances from workers overseas ($3 billion); Suez Canal tolls ($1 billion); economic assistance from the United States, the EC, and Japan; and tourism.

While efforts to reduce foreign exchange are apparently needed, actions by the IRC may have been too extreme. The ban on poultry meat imports has already been effective, and imports may decline to only 30,000 tons in 1982, down from 125,000 in 1981. On the other hand, domestic poultry output may rise to 152,000 tons, up from 135,000 in 1981. However, open-market prices are already rising, and to prevent a serious meat shortage, larger beef imports are underway.

Egypt's policy turnaround has had a disastrous impact on sales of some U.S. products. During the last several years, Egypt had been a spectacular market for U.S. exports of poultry meat, turkey parts, beef liver, eggs, lentils, and sunflower oil. However, during the first half of 1982, U.S. exports of those items to Egypt fell more than 80 percent. Nevertheless, increased shipments of wheat, flour, cottonseed oil, and tobacco offset the lower sales of items affected by the IRC action.

U.S. agricultural exports to Egypt increased 26 percent in 1981, to $967 million. In addition, transshipments through Canada were valued at $34 million, making Egypt the first billion-dollar market for U.S. farm products in Africa. Currently, it appears that sales growth will be small during 1982, and the U.S. share of Egypt's agricultural imports may decline from 25 percent in 1981 to 23 percent.

Kenya's Agriculture Improved

In 1981, Kenya's agriculture recovered from the 1980 drought. Per capita output increased for the first time since 1977, and total production was up about 7 percent. The corn crop, at 2.2 million tons, was up about 25 percent from 1980, about sufficient for domestic needs. The average corn yield reached a near-record 1.8 tons per hectare (30 bushels an acre).

Despite its relatively good corn crop, Kenya remains an importer of cereals, producing only 175 kilograms per capita. Under present conditions, with the population growing at nearly 4 percent a year and a limited short-term production potential, Kenya probably won't return to being the net grain exporter it was during much of the 1970's.

Kenya's agricultural pricing and marketing policies failed when large corn marketings in 1976 and 1977 could not be handled, sold, or financed by the National Cereals and Produce Board or by the Government. When farmers suffered losses, their outlook on corn soured. The Government, in financial difficulty, reduced corn prices in 1979. But with corn shortages in 1980, prices were increased 39 percent. In 1981, Kenya again raised producer prices 37 percent to the equivalent of about $137 a ton or $3.50 a bushel for 1982/83 deliveries. This price is considerably above 1982 f.o.b. prices for corn at U.S. Gulf Ports.

The Kenyan economy remains highly dependent on agricultural exports, but since 1978, when the boom in world coffee prices ended, the economy has not benefited from any such stimulus. While export prices have stagnated or dropped, the prices of Kenya's imports have continued to increase. A 42-percent devaluation of Kenya's shilling since 1980 has made its imports even more costly in terms of local currency. Overseas commercial loans carry high interest rates that have contributed to the sharply increased debt load.

When the economic pie no longer expands very much, then equity questions and political tension mount. While many people are leaving the land, some are also losing it. The Minister of Lands recently stated that no more land was available for settling landless people, and this will increase unemployment and rural poverty. The Government needs more food production, but can it afford the cost while its economic resources are weakening? How far will the higher price policy take the Government toward a longer term resolution of its food and financial problems? These are unanswered issues.

Lebanon's Agriculture Hurt by Conflict

Lebanese agriculture was severely hurt during this summer's hostilities. The poultry industry, which was just getting back to normal after previous conflicts, has been crippled by the breakdown of the feed distribution system. Field crops and orchards have been destroyed by bombings, burnings, and movement of military equipment. In southern Lebanon, the summer-harvested fruit could not move to usual markets in neighboring Arab countries, causing a glut in local markets, with cherries, apricots, and peaches selling at a third of last year's farm prices.

As of August 1, the grain elevator at Beirut was still operational, and during July, it received 17,000 tons of South African corn, 9,500 tons of U.S. soybean meal, and two cargoes of U.S. wheat amounting to 22,500 and 25,000 tons. On the other hand, power outages and transportation difficulties have reduced flour-milling capabilities. As a result, Lebanon had to purchase 30,000 tons of flour from Greece. Recently, a final agreement was reached to purchase 150,000 tons of Canadian wheat for 1982 delivery, but because of the milling slowdown, part may be rescheduled for 1983.

Donor Response Is Considerable

While it has been difficult to assess refugee numbers, current estimates suggest that with the evacuation of the PLO, there will be some 190,000 dependent Palestinians, in addition to 295,000 to 325,000 displaced Lebanese. This large group will require at least 3 months of food supplies and other emergency aid. International relief efforts have been considerable and responsive. The U.S. Government and other donors have joined the Government of Lebanon in administering emergency supplies. As of the end of August, the United States had pledged $95 million for emergency relief. Despite the generous response by donors, distribution has been a more critical problem than supply, and there have been shortages.

In the coming months, Lebanon's requirements for both agricultural and nonagricultural aid and imports will probably double. Cereals are a major item in Lebanon's agricultural imports. The country produces only about 20,000 tons of wheat, hardly any corn or barley, and no rice, while current demand is 25 times the amount produced. Lebanon's wheat imports amounted to 360,000 tons in 1980/81 (July-June), 407,000 in 1981/82, and a forecast 410,000 in 1982/83. Of these, the United States supplied 190,000 and 100,000 tons, respectively, in the previous 2 years and expects to supply 100,000 tons in 1982/83. The United States is also planning to supply 40 percent of the barley imports (10,000 tons) and 60 percent (150,000 tons) of the corn. In addition, there is a considerable market for oilcake and meal, processed foods—meats, vegetables, fruits, and nuts—red meat, and poultry and poultry products. In 1981, U.S. farm sales to Lebanon reached almost $95 million, but sales could be much higher in the near term. [Michael E. Kurtzig (202) 475-3444]

Latin America

With generally increased production and lower prices, farm exports from most countries should be higher during 1982. However, the lower prices will likely result in reduced export earnings. Improved production of food crops, weak economic conditions, and lower foreign exchange earnings will reduce many of the countries' agricultural imports.

Imports From U.S. To Decline

Agricultural imports from the United States are expected to drop sharply to $5 billion in fiscal 1982, compared with a record $6.9 billion in 1981. Higher domestic production, stagnant economic conditions, and lower export prices for many U.S. commodities are the main factors behind the decline. The biggest decrease will be in grains, which may drop 68 percent in value.

Mexico's lower imports are a major reason for the overall decline in U.S. exports to the region. Total U.S. exports to Mexico are forecast to drop 40 percent to $1.1 billion. Crop imports will fall even more, offsetting slightly larger imports of livestock and products. The

Latin American production and trade, major commodities

Commodity	Production 1981	Production 1982[1]	Imports 1981	Imports 1982[1]	Exports 1981	Exports 1982[1]
	1000 metric tons					
Wheat	14.5	15.3	11.9	11.8	3.8	3.8
From U.S.	—	—	8.5	7.8	—	—
Feed grain[2]	66.7	65.5	9.9	4.8	14.2	11.7
From U.S.	—	—	10.8	4.1	—	—
Soybeans	20.6	18.8	2.2	1.9	4.2	4.2
From U.S.	—	—	1.1	0.7	—	—
Soybean meal	11.8	10.5	0.9	1.1	9.5	7.7
From U.S.	—	—	0.9	0.7[3]	—	—

[1]Forecast. [2]Corn and sorghum. [3]Total oilseed meal.

main reasons behind the lower crop purchases are larger domestic production, high stocks, and the devaluation of the peso.

Improved grain harvests and limited foreign exchange will also result in import reductions in other countries. Central America will likely see a 10-percent drop, while Caribbean purchases are expected to fall 6 percent, with wheat imports decreasing the most. Larger domestic supplies will cause weak markets in Peru, Venezuela, and Brazil.

Commodity Outlook Mixed

Wheat production will be up slightly in 1982, to 15.3 million tons, with most of the gain in Mexico and Brazil. Because of this, the region's total wheat imports are projected at 11.8 million tons, down slightly from 1981. Exports, mainly from Argentina, will remain at last year's 3.8 million tons.

Wheat and flour imports from the United States are expected to decline about 9 percent in 1982. This is due mainly to improved crop conditions and depressed purchasing power. Many countries that are in desperate financial condition seem to be deferring purchases as long as possible and are trying to substitute locally produced coarse grain, rice, and cassava for imported wheat.

Argentine production of corn and sorghum declined in 1982, reducing the region's total feed grain output by 1.2 million tons. Nevertheless, production gains in major importing countries, such as Brazil and Mexico, will cause feed grain imports to fall more than 50 percent from 1981's 9.9 million tons. Because of Argentina's lower production, the region's exports will likely decline from 14.2 million tons last year to 11.7 million.

U.S. feed grain exports to Latin America will likely fall 6.7 million tons, mostly because of a 5.3-million-ton drop in Mexican demand. The rest of the decrease will mainly be in Venezuela and Brazil.

Soybean production is expected to be down slightly to 18.8 million tons, as gains in Argentina and Mexico are offset by declines in Brazil and other countries. Despite this, the region's imports will slip to 1.9 million tons, while exports—mainly from Argentina and Brazil—will remain at about last year's 4.2 million.

A sharp decline is expected in U.S. soybean sales to Mexico—the result of a record Mexican crop and Argentine and Brazilian inroads into the market. Most other U.S. markets will show some gains, because overall regional production of oilseeds has fallen, especially cottonseed. [John Link (202) 447-8133]

U.S. agricultural exports to Latin America

Country	1980/1981	1981/1982[1]
	$1000 dollars	
Mexico	2,732	1,638
Central America	373	335
Caribbean	808	763
Brazil	843	547
Venezuela	898	723
Other South America	1,215	1,058
Total	6,869	5,064

[1]Forecast.

WORLD FOOD AND TRADE POLICY DEVELOPMENTS

Commodity Agreements

Canada-Brazil Wheat Agreement

In July, the Canadian Wheat Board signed a new 3-year agreement to ship 1 to 1.5 million tons of wheat annually to Brazil during 1983-85. The new agreement replaces the current 3-year pact for 500,000 to 800,000 tons. Sales terms were 10 percent cash with the balance using government-guaranteed credit on 3-year commercial terms at one-quarter percent below the prime rate.

Other recent long-term agreements for Canadian grain include:

- China, 10.5 to 12.6 million tons of wheat, 1982-85.
- The Soviet Union, 25 million tons of grain, 1981-86.
- Algeria, 500,000 to 700,000 tons of durum wheat and a possible 100,000 tons of bread wheat annually, 1982-85.
- Iraq, 300,000 to 400,000 tons of wheat a year, 1982-85.

Bilateral arrangements accounted for nearly 80 percent of Canada's 1981/82 (July-June) wheat exports of 17.2 million tons.

Coffee Quotas Smaller

Because of falling coffee prices, the International Coffee Organization has reduced member export quotas for the third and final time during 1981/82 (October-September). In September 1981, the global quota was set for the year at 56 million bags (60 kilograms each). On February 24, 1982, the 15-day indicator price exceeded the $1.35-a-pound threshold, prompting a 672,181-bag expansion in the global quota. Prices fell with the new harvest and, on May 25, breeched the $1.20 threshold, triggering a 1-million-bag reduction. The indicator price remained below $1.20, prompting a second 1-million-bag reduction on July 7. Finally, on August 4, the indicator price fell below the $1.15 floor price, causing the third 1-million-bag reduction, leaving the global quota at 53,672,181 bags. No more than two cuts are allowed in any quarter, indicating no further reductions until 1982/83.

Trade Actions

Changes in U.S. Sugar Import Quotas

On June 15, 1982, the U.S. import quota for sugar was fixed at 420,000 short tons, raw value, during July-September. The annual quota for the year beginning October 1, 1982, will be 2.8 million tons. Because of somewhat improved domestic sugar prices, sugar import fees were reduced 0.651 cent a pound on July 1, and by a cent each on July 21, August 10, and August 28, to the current 0.4193 and 1.4193 cents a pound for raw and refined sugar, respectively.

On August 5, the Department announced a change from quarterly to annual quota administration starting October 1, 1982. The Department will issue "certificates of eligibility" to governments of countries exporting sugar to the United States. The certificates will facilitate access of quota sugar to the U.S. market and should promote the orderly marketing and distribution of sugar within the United States. Further, to prevent import "bunching" and abrupt downturns in the U.S. market, USDA on August 17 recommended quarterly shipping patterns for the 12 major sugar exporters to the United States. Although the desired patterns are not legally binding, the exporters are expected to comply to ensure continued access to the U.S. market, where a quota premium exists for sugar imports.

Other changes in the U.S. sugar quota system gave specific percentage allocations to the category "other specified countries and areas." India and Bolivia will each receive an 0.8-percent allocation of the annual quota, while Barbados, Trinidad-Tobago, Fiji, and Malawi will each receive 0.7 percent. Mexico, Haiti, St. Christopher-Nevis-Anguilla, Paraguay, the Malagasy Republic, and the Ivory Coast will each receive a minimum allocation of 16,500 short tons. Non-ISA members will not be given a quota. Zimbabwe will receive a 1.2-percent allocation, allowance having been made for the trade sanctions it experienced in the 1975-81 base period.

Australia-New Zealand Trade

The Governments of Australia and New Zealand released on June 4, 1982, a final draft of the free trade agreement for their Closer Economic Relationship (CER). The CER appears likely to enter into force with the initial round of tariff cuts on January 1, 1983, despite the postponement of the official signing ceremony in August 1982.

The agreement aims to eliminate all import restrictions between the two countries by 1995. The first stage will end almost all import tariffs by 1988, the year in which a 5-year review by a council of ministers will take place. Export subsidies or incentives are to end by 1987. The second stage is an end to all import licenses by 1995. Import licenses, and export subsidies and incentives were the two major hurdles behind more than 3 years of negotiations.

Several agricultural products come under modified liberalization programs and timetables. New Zealand's wine industry will have time to adjust to increased competition from Australia, with tariff quotas until 1986 and a 5-year tariff reduction schedule thereafter. Dairy trade will follow an understanding reached between the industries of both countries. Australia will become New Zealand's preferred source of imported wheat, with improved access for wheat flour. Sugar trade may remain subject to present controls.

U.S. Meat Import Talks

The United States is discussing individual export levels of its three main meat suppliers—Australia, New Zealand, and Canada. In the past, major U.S. suppliers have voluntarily curbed their meat exports to the United States to prevent triggering meat import quotas legislated by the U.S. Meat Import Act of 1979, which lays out the formulas used to determine the maximum quantity of meat permitted to be imported into the United States. Should the fourth-quarter estimate of 1982 imports exceed 1.3 billion pounds, U.S. meat import quotas will be triggered. The President must then limit total meat imports to no less than 1.25 billion pounds, leaving it to the Secretary of Agriculture to allocate individual country shares. [Edward C. Wilson (202) 447-8470]

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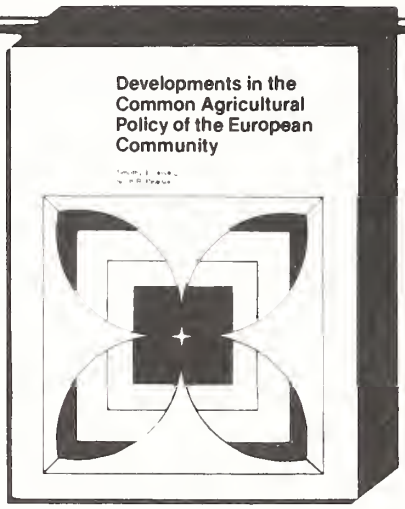
Reduced Ag Subsidies in EC Good News for U.S.

The European Community will have to reduce its agricultural support programs and export subsidies in order to avert a budget crisis, according to a report by USDA's Economic Research Service.

EC expenditures already nearly exceed revenues, while the EC's farm program (CAP) expenditures, which account for nearly 70 percent of total EC expenditures, increase by 15-20 percent per year.

Any reduction in the CAP's cost is good news to the U.S., since the EC's export subsidies will then decline as well. The U.S. welcomes such a change because reduced EC export subsidies will make U.S. exports more competitive.

The report examines how the CAP may evolve, derives potential price levels in various EC countries, and assesses the implications for trade with the U.S. and other countries.



Developments in the Common Agricultural Policy of the European Community, FAER-172. By Timothy E. Josling and Scott R. Pearson. 80 pages, $5.50.

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